PACIFIC RIM TIMBER TRADE ISSUES: TARIFF AND NON-TARIFF BARRIERS FACING THE NORTHWEST TIMBER PRODUCTS INDUSTRY

HEARING

BEFORE THE

SUBCOMMITTEE ON REGULATION AND BUSINESS OPPORTUNITIES

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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PACIFIC RIM TIMBER TRADE ISSUES: TARIFF AND NON-TARIFF BARRIERS FACING THE NORTHWEST TIMBER PRODUCTS INDUSTRY

MONDAY, AUGUST 15, 1988

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON REGULATION AND BUSINESS OPPORTUNITIES,
COMMITTEE ON SMALL BUSINESS,
Portland, OR.

The subcommittee met, pursuant to notice, at 10 a.m.,in Council Chambers, City Hall, 1220 S.W. Fifth Avenue, Portland, OR, Hon. Ron Wyden (chairman of the subcommittee) presiding.

Present: Representative Wyden.

Chairman WYDEN. The subcommittee will come to order.

Today, the subcommittee on Regulation and Business Opportunities is convened to examine the prospects for boosting Northwest forest products sales to the Pacific Rim.

In conjunction with our hearing, the subcommittee is releasing a new report by the Congressional Research Service that states, and I quote: "High tariffs are still a barrier for many products."

And of perhaps even greater concern, the report concludes, and I quote again: "As tariffs are reduced, non-tariff barriers will become more serious limitations to United States with exports."

The trade barriers are going to steal the jobs of Oregonians if we don't knock them down. And it's the purpose of this hearing to identify these job-draining restrictions specifically, and to learn what our trade negotiators are doing to remove them.

There are some clear targets, it seems to me, for our negotiators. First, the People's Republic of China, potentially our largest Asian market, applies a complex import licensing system, and generally, according to the Congressional Research Service Report, information about how to break this bureaucratic code is not available.

Foreign currency exchange is strictly regulated, according to the Congressional Research Service, to control the use of foreign exchange.

Structural uses of wood products are restricted in the Pacific Rim Countries (PRC).

And finally, internal transportation of wood products by foreign shippers is prohibited, making it most difficult to get Oregon lumber and plywood to the end user in China.

The results have been particularly distressing in what is potentially our largest Asian market, sales to the PRC have actually declined.

Two, Korea has a number of non-tariff barriers that range from an outright ban on pine and larch imports to the imposition of a bewildering variety of import licensing requirements. Korea's building code generally discourages the use of wood products in residential construction, specifically public housing. Then you add to these a restrict on ports of entry for certain of the wood products.

Third, exports to Japan have increased, but the problem of transparent barriers, what are known as the non-tariff obstacles still remains. Japan's fire and building codes are very restrictive and it's darn near impossible to get wood products into the Japanese residential building products stream.

Then there are the so-called fair competition codes, which make it very difficult to introduce new products into the building materials market.

The report, as it relates to Japan, states that several shipping requirements are substantial barriers including limits on which ports may be used for logs, port closures on Sundays, restrictions on internal transportation of products, and a shipping cartel which sets westbound ocean freight prices.

In addition to these significant foreign obstacles that we find in Korea and Japan and the People's Republic of China, the Congressional Research Service indicates that what I call, homemade barriers, still exist.

In their characteristically understated fashion, the Service concludes that the half a dozen Federal agencies that share responsibility for negotiating reduced tariffs and promoting exports have produced, and I quote, "a bewildering conglomeration of Federal activities." What I view as a bureaucratic cacophony, and the Service calls, a daunting challenge to prospective exporters.

Now, it's my view that the timing of this hearing is particularly important. A new round of the market oriented sector specific negotiations involving timber and agriculture products, what's known as the MOSS talks, begin with the Japanese on August 29th.

Bilateral talks with the Koreans begin on timber issues this fall.

In addition, talks through the General Agreement on Tariffs and Trade are set to resume in late December in Montreal, and again, timber barriers will be on the table.

Given the analysis that's been done by the Congressional Research Service, and the testimony of our witnesses, our trade negotiators must move more quickly to knock down the debilitating trade barriers to Northwest forest products. In future bilateral trade negotiations, timber has to be a priority and not an afterthought.

The fact is that export markets are becoming increasingly important to the timber industry. The number of domestic housing starts may level off with population trends. And evidence indicates that to maintain jobs in the wood products industry even at their current level, we're going to need more customers in Asian, European, and African markets.

Now, we know we've made progress in the fight to get more Northwest wood products to Pacific Rim markets. We know we've been able to increase exports, but that progress is being threatened by the barriers that remain, and it seems to me that a new effort must begin today to remove those barriers.

[Mr. Wyden's statement may be found in the appendix.]

Chairman Wyden. I'm very pleased with our witnesses. We have a very distinguished panel, many of whom have come across-country to testify. We've also some success stories, companies in our area which have been able to crack these markets. And I'm pleased to have them.

But because he's on a tight schedule, the subcommittee is pleased to have our friend, Mr. Reiten, go first, and we will make your comments part of the record in their entirety.

If you'd like to just summarize your key concerns, that would be very helpful.

We welcome you.

TESTIMONY OF RICHARD REITEN, DIRECTOR, OREGON ECONOMIC DEVELOPMENT DEPARTMENT

Mr. Reiten. Fine. Thank you, Congressman Wyden.

Since we have people here from key industry associations and so on who have all the statistics and numbers, I think that will add to the picture that tells us of the opportunities and the restrictions in the exporting of wood products to the Pacific Rim. I'd like to concentrate just briefly on the strategic nature of what we were seeing as we traveled over there in three trips in the last six to eight months, and the Oregon forest products activities.

I have sitting beside me, Wally Rutledge, who is the marketing director of the Forestry Department of the State of Oregon.

I comment first, that one, you have a part of the world today where the economies are growing, particularly in the five tiger nations, between 18 and 13 percent per year in GNP.

Chairman Wyden. Dick, I'm sorry. I think people are going to have a lot of trouble hearing you. If you could speak right into that microphone, that would be great.

Mr. Reiten. OK. You have the GNP increases of between 8 and 13 percent per year in the five nations called the tigers, which is principally, Taiwan, Korea, Japan, Hong Kong, and Singapore. And you have a growing free market in the area of China, bringing on some free market principles, and certainly the democratization of Korea.

And with all of this, you have a growing wherewithal within these countries for housing and use of wood products. Coupled with the growing economies, you have a depletion of the traditional wood supply to the area coming out of Indonesia, Malaysia, and the Philippines and so on which for many, many years, the hardwood logs there have been the principal source for wood products for the area.

These timber stands have been depleted fairly well, and although they're still there today, are nothing near the stands that they had 15 and 20 years ago. And are not able to supply the wood products needs of this area.

As you go into the South Pacific, Australia and New Zealand are not in the same condition as the Asian countries but they still have growing wood needs there.

So you couple one with the fact that you have 75 percent of the people in the world are going to live in Pacific Rim Countries by the year 2,000, probably 75 percent of the free flowing capital in the world in foreign currency reserves in that area today principally, Japan and Taiwan, a growing need for housing.

And so you have all the elements of a very good solid market. But when you look at our ability to penetrate that market, you look at Oregon with its largest industry of some $2.8 billion in wood products, and we find that only 7 percent in finished products are being exported.

Contrast that with agriculture or primary grains where between 80 and 90 percent are being exported. There's another 7 percent in logs being exported, so you have a total of 14 percent of our State's largest industry here.

Why is this? First of all you have major companies who have penetrated these markets to some degree, principally on logs, but also on finished products. Weyerhaeuser, Louisiana Pacific, Bohemian, and others, have the staying power and the ability to sell their products there, and are increasing yearly their volume of sales.

On the other hand, you have the smaller- and medium-sized companies who do not understand the markets, do not understand the cultural barriers, do not understand the language barriers, and most of all, cannot work their way through the intricate tariff and non-tariff obstacles in most of the countries, principally the Asian countries.

In this regard, they need help. And when you take this back to probably something over 80 communities, something certainly no less than 70 whose principal economy in the State of Oregon is tied to one sawmill or one plywood plant or one veneer plant, and they are totally tied to the U.S. domestic market with the markets that are available overseas, no ability to access or understand these, we have a large opportunity that we're missing here.

So we see it within the State of Oregon as a role for both the Federal Government and the State government to play, first in education, trying to knock down some of the cultural and language barriers by providing those opportunities through education through our universities both public and private.

We see the Oregon Trade and Marketing Center which we are putting in place November 1st here in Oregon, bringing all the State agencies which are involved in international trade, plus the U.S. Department of Commerce Foreign and Commercial Service, plus a number of other internationally oriented businesses and services altogether in one place.

So not only our forest products industry but all of our industries can access these markets better. We have three offices in Asia: In Tokyo, Taipei, and in Seoul. So I think that one of the roles certainly that we can play at the State level is providing a conduit where we can bring our smaller-, medium-sized forest products businesses to those markets with Government assistance in introducing them to the governments in the various countries of Asia and then on into their distribution systems, which we're finding is very important. You don't access a market there like you do here, because it's important that the government be involved; both their local government, here it would be the State government, as well as certain ministers, and import/export agencies of the various countries. And that's new to a lot of people who would normally get on an airplane, fly somewhere, and look up the local distributor and sell their product.

So I think that there is a role for both Federal and State governments to play in assisting business. I think the educational part of it is very important. I think as we move into what's clearly a global economy that this State and the Pacific Northwest, with the opportunities we have in the Pacific Rim are really going to have to have more assistance from Federal Government in knocking down the tariff barriers. And the State government's help in assisting in the accessing of these markets.

You know, the building codes, the product codes and so on are ones that are probably going to be there, but we need to know what they are and we need to know what products, metric sizes, packaging, distribution channels to use. And all of that is an educational process that needs to take place.

I would mention one thing, when you talk about wood products, we can't forget about pulp and paper. On a recent trip to Korea, it was noted to us that since the December 16th elections and the full democratization of Korea, that 100 new newspapers have been created in Korea. It should also be noted that one-third of the chips of Oregon's sawmills and plywood plants are going over in a raw form to be made into pulp and paper in the Asian countries.

I think that it also should be noted that, as a matter of policy, Malaysia, Indonesia, and the Philippines in the last 10 years have substantially restricted the export of logs from those countries to Taiwan, Korea, and Japan, where traditionally they have been either sawn or peeled into products. And thereby transferred most of the primary conversion jobs to those countries. And that those countries are now buying more processed products and value-added products.

So as we look at that particular situation, and I wouldn't recommend that private ownership be restricted from exporting logs, but I think when we look at Federal and State lands, we should take a very hard look at what type of a natural resource that we are exporting and how many jobs we're exporting and what our opportunities are in finished products, if we restrict that.

One final note is that we in the State of Oregon have been using funds through what's called the National Marketing Initiative by Congress for some $5 million was originally proposed to be set aside for State marketing efforts, was funded with only $1 million. We have received $150,000 of that, and it appears as if that will be eliminated in the coming budget.

And I think those types of opportunities as I've mentioned can only be assisted by some Federal help. One is to begin to have the vision of what it is we want to do, to have the determination that we are, in fact, going to become exporters, and that we are going to attack these tariffs and barriers, and that we're going to work our way through the systems that they have in these countries. Because I believe that the markets are there, the currency is there, and our opportunities are there.

[Mr. Reiten's statement may be found in the appendix.]

Chairman Wyden. Thank you very much, and I know you're on a tight time schedule. That's why I think we'll defer questions.

But it's quite clear through the Congressional Research Service and our witnesses that there is really an incredible array of barriers, restrictions, insidious burdens, that are keeping our products out. We have evidence of currency restrictions, internal distribution regulations, building and fire codes, mind-boggling label requirements. It just goes on and on.

I want to assure you and the Governor that we're going to pull out all of the stops to get these barriers dropped. Later this month, new negotiations begin to do it. I thank you for coming. I know you have a plane to catch. And we'll look forward to working with you in the days ahead.

Mr. REITEN. Thank you, Ron. And I think if you will do that, I think you can rely on the State of Oregon to add its role in the education, in the conduit, and the structure to bring our businesses over to access those markets.

Chairman WYDEN. We've have a lot of work to do, and we'll look forward to doing it with you.

Mr. REITEN. Thank you.

Chairman WYDEN. Right. Thank you.

Our next witness, has come from Washington, DC, Mr. Stephen M. Lovett, vice president, National Forest Products Association, accompanied by Alan W. Wolff, a consultant of National Forest Products Association, and Mr. Robert L. Donnelly, president, Contact Lumber Company in Portland.

Gentlemen, we welcome all of you.

Let us begin with you, Mr. Lovett. And we're going to make a copy of your prepared remarks a part of the record in their entirety.

We have a very long panel of witnesses today, and I think what I'm particularly interested in getting from all of you in as concise a way as we can is your assessment of the current barriers that we're facing.

As I said, and the numbers show, we're making progress. But what we want to know is exactly what the barriers are that your members and your companies are facing, because we'll have the administration's representatives next and we can then go to what strategy they're pursuing.

So let's begin with you, Mr. Lovett.

TESTIMONY OF STEPHEN M. LOVETT, VICE PRESIDENT, INTERNATIONAL TRADE COUNCIL, NATIONAL FOREST PRODUCTS ASSOCIATION

Mr. LOVETT. Thank you very much, Mr. Chairman.

The National Forest Products Association believes that trade barrier reduction is essential to realize the fruits of our industry's overseas market development efforts, and we very much appreciate this opportunity to make our views known.

This hearing focuses on some of our industry's most important markets. Japan is without question our largest export market with $1.8 billion in 1987, 45 percent of all export sales.

Canada was next with $471 million, followed by Korea with $190 million and China with $168 million. West Germany, the United

Kingdom, Italy, Taiwan, Mexico, and Australia make up the balance of our industry's top 10 export markets.

So you can see that 3 out of the top 5 and 5 out of the top 10 of our export markets are in the Pacific Rim. And combined, these Pacific Rim markets account for 60 percent of all export sales in wood products from the United States.

So clearly, these markets are extremely important to our industry and Oregon and the Pacific Northwest are strategically positioned to take maximum advantage of these markets.

Because the Pacific Rim has a per capita consumption of wood one-tenth of that of the United States, a severe shortage of domestic timber supplies, critical housing shortages and a projected GNP growth averaging three to four times that of Western nations, we believe that the Pacific Rim could offer a much larger potential for increased sales of solid wood products.

If these markets were free of trade barriers, annual sales could increase dramatically, rising an additional $2 billion by the year 1994.

Chairman WYDEN. Excuse me for interrupting you. I wanted to make sure I understood that. I saw that in your printed statement, and it just strikes me as an eye popping figure. You're saying that if we can get these trade barriers dropped, we would have, according to your analysis, $2 billion extra of export sales to the Pacific Rim?

Mr. LOVETT. Yes, sir, that's correct.

Estimates like this are extremely difficult to make, however, and it's assuming that market development efforts are successful and that there's a drastic reduction in trade barriers. And of course, this is projecting out to 1994.

Chairman WYDEN. Excuse me for interrupting you. We'll have some more questions about these things in a moment.

Mr. LOVETT. Fine.

Although the primary obstacle in the Pacific Rim is trade barriers, nevertheless, problems here at home also prevent our industry from gaining its rightful competitive place in these markets.

First is the lack of documented evidence of trade barriers. Second, the lack of a strategy strongly supported by our Government to remove these barriers. And third, the lack of sufficient political support from Congress to ensure the success of this effort.

Our industry has compiled a data bank of tariff and non-tariff barriers. This exercise has tapped the resources of the Department of Commerce, the Department of Agriculture, U.S. embassies overseas, and finally the experience of our industry in foreign markets. Despite this effort, data bank information remains incomplete and anecdotal. Our industry cannot expect our Government to go to the negotiating table with this kind of information. We need documented evidence of non-tariff barriers before any trade negotiations can be successful.

Mr. Chairman, I'd like to invite your attention for a moment to some of the barriers we face, and what U.S. negotiators have done about them.

I'd like to start with Japan. To capitalize on the potential gains in the Japanese market, the U.S. Government engaged in the MOSS talks, as you have mentioned, with Japan in 1985. These talks produced some progress toward the elimination of barriers to trade in wood products, but a great deal remains to be done.

Although in principle, the Japanese had agreed to a continuation of the MOSS talks at the insistence of USDA's Foreign Agriculture Service, a renewal of the talks has been stalled for nearly a year on both sides of the Pacific, leaving an excellent opportunity to expand markets untapped.

Support from Congress could help the administration gain the leverage it needs to ensure the success of these talks.

Objectives in the continuation of the MOSS talks will concentrate on the elimination of the remaining tariff barriers for softwood plywood, veneer, structural laminated timber, medium density fiberboard, unfinished and finished lumber, wood beadings and moldings, oriented strandboard, waferboard, surface worked softwood plywood and tongue in groove softwood plywood. The elimination of a range of non-tariff barriers, including restrictive building codes, fire codes, allowed occupancies, standards and so forth which prevent the use of U.S. products in timber frame construction.

I'd like to point out this is just a summary of some of the barriers.

I'd like to move on to Korea. Korea is a market of huge potential to which we're not being denied access because of tariff and non-tariff barriers.

We are pleased that the office of U.S. Trade Representative continues to include forest products as one of the three negotiating groups in the agricultural sector in talks with Korea. We are hopeful that these talks will continue beyond tariffs to include the many non-tariff barriers preventing access to the U.S. wood products to the Korean market.

Korea holds enormous potential. We estimate a $500 million market by 1995 if the tariff and non-tariff barriers come down. The most onerous tariffs are those on lumber 15 percent, plywood, medium density fiberboard and other panel products 20 percent, and veneer 15 percent, especially in view of adverse discriminatory tariffs which favor South Sea sources.

Non-tariff barriers include a suspected system by which the Korean government sets quotas on overall wood product imports and allocates the percentage of imports to go to each country, thereby limiting market access with artificially applied import ceilings.

Second, the duty treatment of wood products continues to be discriminatory against U.S. products in favor of those in Southeast Asia. The ministry of construction controls the amount of foreign wood allowed into the country for construction purposes. The government controls financing of public housing which prohibits the use of wood, and the government supports an import substitution policy favoring non-wood materials.

I would like to point out that these are just a few of the many barriers that exist in Korea.

In recent years, China has frequently been the second largest overseas market for U.S. forest products. We estimate a billion dollar market by the year 2000 if the trade barriers can be removed.

The following trade barriers and practices are impeding the ability of U.S. forest products exporters to perform in the PRC:

Tariffs range from 9 to 60 percent among the highest in Asia. In addition, an unpublished products tax of 3 to 10 percent is collected at the time of entry. There's a suspected discriminatory application of tariffs and the products tax on timber obtained from Russia. There is a wood policy which prohibits structural and other applications of wood products. A non-transparent government trade monopoly which does not consider demand from end users. And government policies which restrict the use of foreign exchange, as you've mentioned.

Taiwan, I'd like to cover very briefly. In 1987, 73 percent of all export sales to Taiwan were hardwood products. But a new softwood products market appears to be emerging.

It appears that the Taiwan Forest Bureau will be placed under government funding, as opposed to funding from forest sales, and when this happens, it is likely that all logging will cease on public lands.

Taiwan holds market potential which needs to be tapped by the combined efforts of an industry market development program coupled with Government efforts to eliminate tariff and non-tariff barriers and influence Taiwan to expand its market for wood products as a means of balancing an enormous trade deficit with the United States.

I'd like to point out one other type of barrier that we face which we call a third country barrier. It's the operation of some other producing or supplying country as it affects a target market for U.S. products. The effects of that third country oftentimes act to keep us out.

I would like to give you one example of how this can happen. The plywood tariff in Japan is 10 percent, and this is sufficiently high to restrict exports of U.S. softwood plywood to Japan, which last year reached only $3 million.

The Japanese maintain this tariff to protect their domestic plywood industry from imports from Indonesia. Indonesia wood panel manufacturers receive manufacturing and export subsidies and are thus able to engage in dumping to capture a market. This same practice has already caused contraction in the Korean plywood industry from 7 billion square feet of production per year several years ago to around 3 billion square feet today.

And so the same principle by which the Japanese justify their 10-percent tariff holds true for the 15-percent tariff in Korea, as well.

This unfair competition for Indonesia's unfair trade practice results in high tariffs in other Asian countries which obstruct market access for U.S. products.

Mr. Chairman, in conclusion, I'd like to make several recommendations. The governments of each of these countries control their industries and markets through public policy which can translate into practices of tariff and non-tariff barriers.

To one degree or another, Pacific Rim Countries have planned economies. On a spectrum, Japan is the least planned of the four countries I've covered, whereas China's economy is the most planned. Looking at this from another perspective, however, we can say that the barriers we face in Japan are the most non-transparent, and the barriers we face in China are the most obvious.

This does not speak of the effort needed to remove these barriers, but only of the effort needed to understand them. Since we are dealing with economies that are to one degree or another controlled by government planning, our industry does not have the wherewithal to influence the reduction or elimination of trade barriers. Only the United States Government can do this.

I would like to suggest several areas where the administration, prompted by strong political support from Congress, can dramatically change the climate in foreign countries to the advantage of U.S. exporters.

Specifically, we need support from Congress to ensure that language in the recently passed trade bill making all solid wood products equal for the full range of USDA Export Financing is implemented by the administration, which heretofore has opposed the use of these programs for wood products.

And Congressman Wyden, in this regard, our industry would like to thank you very much for your efforts as chairman of the Forestry 2000 Task Force for your recent letter to OMB which gave us some very strong support and a response from the interagency process that wood products will be eligible for PL-480 on a case by case basis. This is real progress you've made and we thank you very much for it.

We need support from Congress for the USDA Foreign Agricultural Service and Department of Commerce Forest Products Programs. USDA's FAS provides excellent programs but have not received sufficient funding to realize their potential.

We need support from Congress for targeted export assistance funding at the $325 million level mandated by the Food Security Act of 1985. Recent attempts to cap this program at $110 million will seriously thwart the wood products industry's overseas promotion programs.

We need support from Congress for wood products industry in bilateral and in GATT multilateral trade negotiations. Even if sufficient evidence is accumulated to document trade barriers, it will be of no use if it's not used.

We need support from Congress for a continuation of the MOSS talks with Japan which are vital if our industry is to make further gains for wood exports to that market.

And finally, we need support from Congress for Government efforts to document trade barriers to solid wood products. In this regard, the Commerce Department's study of trade barriers in the Pacific Rim is of vital importance to our industry. It is projects such as this that will allow our industry to fulfill its competitive potential.

Again, I would like to take this opportunity to thank you, Mr. Chairman, for your support of our industry through the Forestry 2000 Task Force. As cochairman of the Task Force, you've assisted us on many important issues, and we are grateful for all your help.

The United States is increasing its export of wood products by being the world's low cost producer. A combination of high productivity and comparatively low manufacturing costs means that the U.S. products are extremely competitive on the world market. The

U.S. industry has the competitive edge to take advantage of any export opportunities *created by the removal of trade barriers.*

We believe that the efforts of our industry's exporting companies to penetrate foreign markets and the market development efforts of our industry associations cannot be successful without a serious commitment on the part of our Government to eliminate foreign trade barriers in the forest products sector.

We appreciate this opportunity to make our views known.

[Mr. Lovett's statement may be found in the appendix.]

Chairman **Wyden**. Mr. Lovett, thank you. It is a pleasure to work with you and we'll have some questions in just a couple of minutes here.

Let me have your associate Mr. Wolff, a consultant with the Association, testify next.

TESTIMONY OF ALAN W. WOLFF, CONSULTANT, NATIONAL FOREST PRODUCTS ASSOCIATION, WASHINGTON, DC

Mr. **Wolff**. Thank you very much, Mr. Chairman. By way of introduction, I'd mention that I'm a partner in the law firm of Dewey, Ballantine, Bushby, Palmer & Wood, in Washington, DC, and counsel to the National Forest Products Association for its Pacific Rim Market Access Project.

I've worked closely with the industry, and with you and your office in connection with the Canadian softwood lumber subsidy problem and its resolution, and the problem of tariff reduction and removal of non-tariff barriers in Canada to American plywood, as we were counsel to the American Plywood Association in that connection.

And in both instances, of course, you were instrumental in bringing about solutions which were very favorable for the domestic industry.

I'm drawing on my experience today as deputy trade representative in the Carter administration in trying to give a greater priority in this new round of negotiations to opening of foreign markets to North American forest products.

The North American forest products industry has an enormous opportunity to increase dramatically the exportation of solid wood products through the opening of markets for solid wood products in Pacific Rim Countries, specifically Japan, Korea, People's Republic of China, and Taiwan, which have the world's fastest growing economies.

Chart 1, which may not be visible to everyone, but it is attached to copies of my statement as well, shows that the cumulative growth 1988 through 1992, Taiwan, South Korea, China, Japan versus United States and Europe clearly indicates that the amount of economic growth in the Pacific Rim Countries is just phenomenal compared with that in the United States and Europe. We are only at a level of about 2.8 to 2.2 percent in the United States and Europe compared with China and Taiwan at about 7 to 8 percent annual growth rate, and Korea at 5.6 percent increasing to 8 percent in the decade of the 1990's. And Japan's economy will exceed the growth of our own at about a 4.1-percent rate.

These differential growth rates account in substantial part for the $2 billion figure of additional exports that the United States could achieve by the year 1994 if we are successful in the removal of foreign trade barriers.

The opportunity which exists is also greater because per capita consumption of forest products in the Pacific Rim is still quite low, even though these countries are developing rapidly.

The consumption of wood products is low because of trade barriers, some unfair, some the prerogative government policies which are otherwise legitimate which impede the importation and increase the cost of American forest products.

The fact of the matter is that the Pacific Rim governments do influence the consumption of forest products. And the potential for the North American forest products industry to increase exports to these countries depends on whether we can identify those policies sufficiently and work for changes in them in a way which we hope will be beneficial not only to the United States and our export potential, but to those countries themselves who are distorting their own economies through barriers to imports of forest products.

Further, to the extent we can understand those private actions and policies that limit importation of North American wood products, our companies can effectively work to increase exports.

Often what we're dealing with in these countries is restricted business practices. It's not true of countries such as the People's Republic of China where government intervention is pervasive. It's a State market, State run economy. But in countries such as Korea and Japan, they do not have enforcement of their antitrust laws in the same way as we're used to in this country, and part of the major barriers which we face are non-enforcement of competition policy laws.

In sum, the Pacific Rim markets, to reach their full potential, will have to see forest products consumption in those markets increased further, and conducting a study which the Department of Commerce currently has underway to identify the barriers to importation and the use of forest products is the first step toward unlocking that potential.

There are clearly a number of significant tariff and non-tariff barriers to Pacific Rim forest products markets. Mr. Lovett reviewed several of them with you. They not only keep out American forest products, but discourage total forest products consumption of the Pacific Rim by raising the prices of these products unduly.

And Chart 2 shows a comparison between prices for comparable products being nearly twice as high in Japan as in the United States. A lot of television coverage has been given to the differential in beef prices between the United States and Japan. But the fact of the matter is that our forest products are suffering the same kind of discrimination, same kind of barriers which raise prices.

And this is not at all good for the Japanese consumer. One thing that I would hope we would see is publicity given in the Japanese market to the fact that the would-be purchaser in Japan of forest products is just paying twice the world price for their own consumption.

And as Japan moves to internationalize its economy which Prime Minister Takasha has said is a national goal, clearly the price differentials will have to be narrowed and then removed.

While some of the market barriers have been identified, there has been no comprehensive study of the causes and effects and the trade policy implications of those barriers, nor have all the barriers been systematically identified. Thus, a study of the kind the Commerce Department is undertaking is a necessary first step in seeking to address market barriers.

Some of those barriers, Japan's post and beam construction are not unfair inherently. Others, such as foreign exchange restrictions in China, Korean high tariffs are objectionable. They may not be considered actionable as unfair trade practices under the GATT rules, but they can be removed, they can be affected, they can be adjusted through American efforts of our trade negotiators.

Once we learn which are and which are not actionable, we'll learn how to address these barriers, and then seek their removal.

One of the main barriers in each of these countries, and using Japan as an example, is the sharp divergent of our economic goals and their own. In Japan, the producer rather than the consumer receives government emphasis. Thus, the United States has become the world's largest over consumer of the world's goods, while Japan is the world's largest under consumer.

We have a distribution system that is the world's most efficient, while Japan's greatly dampens consumption. American policies enshrine homeownership, while Japanese land use and tax policies, while some modest changes are being made, still make homeownership difficult if not impossible for most.

Not only is land more expensive in Japan, but credit is far less available. And the Japanese spend an enormous portion of their disposable incomes on food, as well as shelter while receiving far less for it.

These differences have a significant impact on per capita consumption of forest products in the two countries.

And Chart 3 shows lumber consumption per capita. As might be expected, on the far right, the United States is nearly twice as much as Japan on the left. And China, South Korea, Taiwan and other Pacific Rim Countries are really a very, very small amount of per capita consumption compared with either Japan or the United States.

Chart 4, if you use a different measure, lumber consumption per dollar of gross national product, again, Japan is nearly half the level of Europe which lags a bit behind the United States versus the United States on the far right.

So the potential is there. We have not taken sufficient aggressive action yet to open up these foreign markets. We have promoted openness in trade but the openness has been substantially our own. And now we have to get other countries to follow suit.

What has often taken place in this country is legal remedies have been invoked. There's been some discussion of cases being filed. And cases have been filed in some instances to open foreign markets. But it is the attention of yourself, your subcommittee, other Members of Congress and an active industry that will shape the U.S. negotiators' agenda.

In conclusion, I'd just like to sum up by saying that the consumption of forest products in the Pacific Rim can clearly be greatly increased by an order of magnitude. I think this several billion dollar figure is just a beginning, if we put our efforts and our attention to work in this area.

Where, second, we are the most efficient producer of wood products in the world, and there's no reason why our trade pattern shouldn't reflect that.

Third, we have the capability. While other countries such as the USSR, New Zealand, and Chile are increasing their supply capability, the production capability of these countries is not as great and not at all as sophisticated as that of the United States.

In sum, for these reasons, a study of the Pacific Rim forest products markets is not only necessary, but can lead to an enormous change in our trade patterns for the benefit of the Pacific Northwest, for the benefit of this State and its forest products industry, and we should see in the next three or four years a substantial reduction of barriers to American exports of forest products abroad, and an increase in shipments from the Pacific Northwest of wood products.

Thank you, Mr. Chairman.

[Mr. Wolff's statement may be found in the appendix.]

Chairman WYDEN. Mr. Wolff, we thank you and we thank you for coming a long way, and we'll have some questions in just a moment.

Mr. Donnelly, we welcome you. You're on the front lines trying to get into these markets. We'll make your prepared remarks a part of the record in their entirety. And if you could summarize for us what kind of problems you're facing, that would be helpful.

TESTIMONY OF ROBERT L. DONNELLY, PRESIDENT, CONTACT LUMBER CO., PORTLAND, OR; REPRESENTING INDUSTRY SECTOR ADVISORY COMMITTEE FOR LUMBER AND WOOD PRODUCTS

Mr. DONNELLY. Thank you, Mr. Chairman.

My name is Bob Donnelly. I'm president of Contact Lumber Company, located in Portland, OR. Our company was formed here in 1946, and it's the current location of our headquarters and general sales office. We have plants located in Hines, OR and Prineville, OR.

We export and import to and from many of the countries in the Pacific Rim, as well as Europe, Canada, and South America.

I'm very concerned about the competitiveness of U.S. wood products industry in the international arena. And have represented this concern by serving as chairman of the Industry Sector Advisory Committee for Lumber and Wood Products, ISAC-10; chairman of the National Forest Products Association, Committee for Trade Policy, and as vice chairman of NFPA's International Trade Council.

In March 1988, NFPA's Committee for Trade Policy met with Ambassador Daniel Amstutz, the U.S. Agricultural Negotiator in the current General Agreement on Tariffs and Multilateral Trade Negotiations. We discussed how wood products will be treated in the GATT and which Government agency will take responsibility for wood products in trade negotiations.

Ambassador Amstutz said that the wood products industry will be best served in the GATT agricultural trade negotiations because the strategy in these negotiations is to reduce all tariff and non-tariff barriers to zero, whereas the strategy in other negotiating groups will be on a request offer basis, targeting specific tariff and non-tariff barriers.

The Ambassador warned that it was very possible that wood products would be separated out of the agricultural negotiations and if this happens, the wood products industry must provide a shopping list of our tariff and non-tariff concerns to the Office of the Trade Representative and other involved Government agencies.

It is important that we have the necessary political support from Congress so that the administration will ensure that our concerns are addressed.

I would like to describe the U.S. wood products industry policy and principles on multilateral and bilateral trade negotiations for I feel that especially in the Pacific Rim, these are very important to achieve our industry's objectives in reducing trade barriers, not just for a few selected products, but for the full range of solid wood products, regardless of the incremental state of manufacture.

The U.S. Wood Products Industry supports the concept of free and open trade between nations.

The U.S. Wood Products Industry believes that U.S. negotiators should take the following positions in trade negotiations:

(1) That all major developed countries should have zero tariffs on all wood products, regardless of the level of processing.

(2) That newly industrialized countries (NIC's) shall agree to a near term less than five years schedule to have zero tariffs on all wood products.

(3) That all less developed countries (LDC's) that have competitive industries in any wood products sector shall follow the same format as the NIC's in those wood products sectors.

(4) That all other LDC's shall have no tariff on any wood product over 10 percent, that such tariffs shall be temporary and serve only to protect an industry for development purposes. And that in any case, LDC's shall phase out all tariffs over a maximum 10-year period.

(5) That subsidies for forest products worldwide shall be eliminated.

(6) That the principle of performance standards for structural panel products be accepted worldwide.

(7) That there should be no tariff differential between processed and unprocessed wood products.

(8) That improved access to U.S. markets shall not be granted without reciprocal treatment for U.S. wood products.

(9) That access to U.S. markets, including that provided under the Generalized System of Preferences Program, GSP, shall be used vigorously to improve access for U.S. wood and processed wood products in foreign markets.

(10) That non-tariff barriers for forest products worldwide shall be eliminated.

The way to win is to come up with a strategy which puts the entire industry in a position to substantially expand our exports by focusing on market access for all U.S. wood products.

I'd like to stress that a strategy for focusing on market access for all solid wood products gives us the advantage of representing our industry with a national position, not regional or factionalized. And we could therefore expect political support from many areas of the country.

To be effective, a strategy must be based in a definitive documentation of trade barriers. It is of vital importance that studies be conducted that document trade barriers and give evidence about how they operate. That's very important. And that these studies be credible and reliable.

The case also needs to be made to Congress and the administration that we, as an industry, are not satisfied with business as usual, but believe that the time is right and the opportunities for our industry are great enough to make this a focal point in winning open access to Pacific Rim markets.

The object is to win, and the way is a sound broad-based policy, effective studies and a realistic strategy, and political and industry support.

Today, we have a superb and unprecedented opportunity to make gains that benefit our industry and our country. The Commerce Department has commenced a study of trade barriers in the Pacific Rim. If we miss this opportunity, it may be a long time before we get another as potentially beneficial to our industry as this one.

Before I conclude my testimony, I'd like to make several recommendations for congressional initiatives to improve market penetration and expand markets for U.S. wood products in the Pacific Rim:

First, the Office of the U.S. Trade Representative must be impressed with the importance of refraining from setting priorities for our industry's needs, especially to the exclusion of those products for which we face the most extreme tariff and non-tariff barriers overseas.

Traditionally, the Commerce Department and the U.S. Trade Representative have negotiated for the reduction of tariff and non-tariff barriers for only those products which have demonstrable market penetration as evidenced in existing trade flows.

This method of prioritizing based on existing trade flows excludes those products which have not been able to gain a market share. It is understandable that our Government negotiators would want to emphasize in their negotiations those products which stand to bring the United States the greatest gains in exports. This is why they fall back on proven export performance.

I would like to point out, however, that oftentimes there's an excellent export potential where no trade flows exist because of the restrictions caused by tariff and non-tariff barriers. If those barriers were removed, there could be an excellent market for products which are currently not exported at all.

It would seem that in many cases, the lack of exports might be the standard for setting objectives in these trade negotiations.

Furthermore, the process of setting priorities has in the past excluded a wide range of processed wood products. Prior to the 1980's, much less of our industry was actually involved in the export market, and fewer people cared about the exports because domestic consumption was sufficient.

This situation is no longer the case. In the Tokyo round of the GATT, emphasis was placed only on a few products. What was satisfactory then will not satisfy our industry today.

More people are concerned about exports and more of our industry wants their concerns addressed by our Government in trade negotiations. This means that many more products will be negotiated and the setting of priorities which excludes many products will have to cease in order to satisfy the full breadth of our industry.

Second, I'd like to point out that sufficient documentary evidence does not exist to effectively negotiate the reduction and elimination of non-tariff barriers that face our products overseas. A congressional initiative to provide this evidence is essential if our market development efforts are to be effective.

Third, congressional support for the research that our industry has undertaken, for the strategies that our industry has developed, and for our industry's objectives in trade negotiations, will ensure that the U.S. Government negotiators get the solid wood products industry an important place in trade negotiations.

Fourth, our industry needs the political support of Congress to ensure that if the Department of Commerce and the U.S. Trade Representative do set priorities for trade negotiations, that these priorities accurately reflect the needs of our industry. This has not always happened in the past.

Thank you, Mr. Chairman.

[Mr. Donnelly's statement may be found in the appendix.]

Chairman WYDEN. Mr. Donnelly, thank you.

Gentlemen, we thank all of you.

And let me go to some questions at this point.

Now, Mr. Lovett, according to the calculations that NFPA has made, you all believe if we don't get these tariff barriers down, take the steps to promote our exports that you discuss, we'll lose $2 billion in lost potential export sales.

Does that incorporate both tariff and non-tariff barriers? Is that how you arrive at that $2 billion figure?

Mr. LOVETT. Yes; that's correct.

Chairman WYDEN. All right. Any idea how many jobs we're talking about if you do that?

I know the Forest Service—we've been talking about it from the standpoint of the Jones Act—has some kind of calculus jobs to board feet or something like that. Are you all looking at some kind of jobs figure that you can point to?

Mr. LOVETT. Based upon total industry sales of $70 billion in 1987 and about 700,000 people employed, and so forth, figuring it out that way, you come up with roughly 15,000 to 20,000 jobs.

Chairman WYDEN. As potentially lost as a result of the barriers you identified?

Mr. LOVETT. That's right.

Chairman WYDEN. We have all these negotiations coming up and that's one of the reasons that I wanted to hold these hearings at this time, because we have MOSS talks on August 29th with the

Japanese, bilateral talks with the Koreans in the fall, and more GATT talks late December in Montreal.

My question is that there seems to be a whole host of transfers, resignations, a variety of changes in the trade negotiating team. Are we finding that this has left us a marked decline in the number of people with real expertise to pursue the kind of changes in these upcoming negotiations, Mr. Lovett?

Mr. LOVETT. Could I take a minute on this one?

Chairman WYDEN. Sure.

Mr. LOVETT. I would like to start by saying, just to keep the record very, very straight, that the Commerce Department and Agriculture Department staffs in the Forest Products Division have given our industry excellent and very strong support. They've worked hard for us and we really appreciate it.

To answer your question, however, we don't have the support we need in negotiations. The staffs that do exist in Commerce and Agriculture are very small. As soon as the younger people on the staffs become familiar with our industry, they are rotated to other jobs. And with the exception of the Forest Service, which to my knowledge does not work in the area of trade policy, there are less than 10 people in both the Department of Commerce and Department of Agriculture combined with expertise in forest products. And to my knowledge, several of these are retiring or being transferred.

With a wide range of research, administrative, market development, trade servicing, and other duties, these staffs have very little time to address our industry's concerns in trade negotiations. And to make matters worse, to my knowledge, at the present time, there is no one in the office of U.S. Trade Representative who is specifically assigned to address the concerns of our industry.

Chairman WYDEN. There's not one person in USTR right now to go to bat on the timber issues?

Mr. LOVETT. Specifically assigned to forest products, that's my understanding. Now, certainly there are people who are representing us in the trade negotiations, but they're not assigned specifically to forest products among their duties and they don't have expertise in the area of forest products.

Chairman WYDEN. Well, let me tell you, I share your concern. And I think that you're also right in saying that there is a great deal of technical expertise out there. And they have been very helpful to this subcommittee and we've worked very well on a number of areas.

But my concern is that with these upcoming negotiations, we must make sure we don't miss another opportunity. And what do you think the effect is going to be on these upcoming negotiations about the reduced number of people to carry the ball in the talks?

Mr. LOVETT. Obviously, without the administration giving priority to our industry with both financial resources and personnel that it takes, I think that we're not talking about large amounts of money or large numbers of people. We're talking about a couple of people, a little bit of money to support them. That is what we need to get the kind of attention that's going to get us some progress in the trade negotiations.

Chairman WYDEN. And you want that right now because these talks are coming up. I mean, it's just a few weeks, isn't that correct?

Mr. LOVETT. Everything is current right now, that's right. The MOSS talks are August 29th.

Chairman WYDEN. Let me assure you that one of the things that I'm going to do right away is to try to generate an effort within the Forestry 2000 Task Force to try to get the beefed up effort you're talking about going for those upcoming talks. Because I think that's critical.

We can have a debate over the exact amount of dollars and jobs involved in the barriers, but everybody agrees that there are barriers. The Congressional Research Service agrees, you agree, the administration agrees, and we just can't let those upcoming talks go by, in my view.

And I want to assure you, we're going to try within the Forestry 2000 Task Force to get a beefed-up negotiating effort going.

Mr. LOVETT. Judging from our experience in working with the Forestry 2000 Task Force in the past, I feel very confident that we're going to get excellent results. And we really appreciate your help in this regard.

Chairman WYDEN. Mr. Wolff, just a question or two for you. You have been a negotiator. You have been in the Government in effect carrying on the kind of negotiations we're talking about.

Do you think that timber has had high enough priority in terms of the trade negotiations?

Mr. WOLFF. I don't think it has. I don't think that there's been a realization that the gains could be made in terms of U.S. exports that are really there to be had. Part of the reason for that is an inadequate analytical base. The barriers abroad have not been identified with sufficient specificity. The opportunities for gains have not been that clear.

Part of the problem, you have noted, is the lack of resources and your pledge to get congressional support to increase those resources will make a real change.

There is a problem of interagency coordination. Different responsibilities lying in different areas.

There is the problem of continuity, which you have pointed out, and frankly, strong congressional support will be required to make this area a high priority for a new administration. And strong industry support better organization, which has taken place in recent years, will make a difference as well.

Chairman WYDEN. Let me ask you about one other issue which I have heard more and more discussion about, and I think it's in one of the prepared statements, maybe one of yours or one of the other witnesses' statements.

And that is that forest products is to some extent in a kind of catch-22 when it comes to negotiations. Under this kind of theory, the notion is that the U.S. negotiators of late have really gone after only those products that have achieved some degree of market penetration or success.

In going after those products, you have ignored or at least made a lower priority, other products possibly products with a higher value added kind of nature, and we don't go after those products in terms of trying to get the restrictions dropped in what are big growth markets.

Is that catch-22 a fact? Is that a serious kind of problem, Mr. Wolff?

Mr. WOLFF. It is a problem. It can be remedied. The problem for the negotiator is that he can only achieve a certain amount of barrier reduction in any given negotiation. And therefore, he or she has to locate those areas of maximum gain and often perhaps that's done on a basis that is a bit too superficial.

But there are only a limited number of things that can be achieved. We have to get forest products higher on the list of priorities. I think you were referring to Mr. Donnelly's statement and his background of——

Chairman WYDEN. Is he the author of the catch-22?

Mr. WOLFF. No, but it's maybe as appropriate. If you took a look at some of the 1987 trade figures and how they're classified, Japan purchased $22,000 of softwood flooring, $80,000 of softwood siding, $62,000 of hardwood siding, $305,000 of softwood molding, $196,000 hardwood molding, and so forth.

Now, one of the interesting, one of our respected members of the International Trade Council, I would consider a very leading expert in hardwood veneer, put down on paper some views that if 12 countries of the world reduced their tariffs on hardwood veneer to zero, which it's the same as our tariffs to them, that trade in just hardwood veneer would increase by $200 million a year. And if the Japanese reduced their tariff to zero, that alone would account to about a $50 million increase.

So I think you can see as you spread it out over the family of products, that's really what's important, we need to compete in those markets as an industry.

Chairman WYDEN. I have a couple of questions for you, Mr. Donnelly, again, because you're on the front lines trying to get your products in.

Could you give us some examples of some particularly frustrating situations that you and your company have personally faced in terms of trying to get these markets in?

Mr. DONNELLY. Well, you know, I think what we would sit and tell you, it's tariffs, tariffs, tariffs, and then after you get through talking about that, it's tariffs again. So we don't even get around to the non-tariff barriers.

If you looked at the average products that we produce, the tariffs in Korea would be 20 percent; Taiwan somewhere around 10 percent; China, they'd be 50 to 60 percent. Take Japan on pine moldings, it would be 7.2 percent; prefinished millwork, 5.8 percent. Some of those numbers don't sound like a lot, but if you put them in dollars per thousand and the competitive advantage it allows the other nation, they are significant.

I think you have to look at it further as to our State and our country. You take hardwood, softwood plywood, 10 percent, you take LVL lumber, laminated beams in the 20-percent area.

I mean, surely, those are unreasonable numbers.

Chairman WYDEN. The only other question that I had is what would you all like to see Congress do at this point to get the strong action on tariff and non-tariff barriers that you advocate?

Why don't we start with you, Mr. Lovett?

Mr. **Wolff**. Well, if I might offer a comment on that?

The priorities are set by the Trade Office and by the Department of Agriculture and Department of Commerce in part on the basis of an analysis of where the gains can come. And I think that the Commerce Department study, as well as the industry advice through ISAC–10 will indicate that there are major gains in this area. And Congress can call attention to the facts.

They're also set, though, priorities are also set on the basis of a political mosaic. A trade package is going to have to come back to the Congress of the United States for approval. And the question is, will it pass muster with respect to the Pacific Northwest.

And when that package comes back, you'll have to make an assessment as well as other members of congressional delegations in this part of the country and in other forest product States as to whether enough has been gotten.

And I would think that through hearings such as this, and through statements and the activities of your task force, the administration—this administration and the subsequent administration—can be made very well aware that their work is going to be graded on the basis of whether forest products' access abroad is not just increased in one or two areas or half a dozen or a dozen areas, but in a way which can make the figures that were alluded to by Mr. Lovett and yourself earlier in this session, the $2 billion increase as the minimum acceptable for the United States in this series of negotiations.

Chairman **Wyden**. Gentlemen, I'd have more questions for you, but we have a whole host of witnesses.

You all have been very helpful and we thank you for coming, and we'll certainly be working closely with you in the days ahead.

Our next panel, Michael T. Kelly, Deputy Assistant Secretary for Basic Industry, the Department of Commerce; accompanied by Joseph Fraser, Office of Congressional Affairs, Department of Commerce; Christopher Kristensen, Director, Office of Forest Products, Department of Commerce.

Gentlemen, we welcome all of you. And I know, Mr. Kelley, that you have come a long way and changed your schedule to do this. And we appreciate it.

We will make any prepared remarks you would care to make a part of the record and if you would like to highlight some of your main concerns, that would be helpful.

TESTIMONY OF MICHAEL T. KELLEY, DEPUTY ASSISTANT SECRETARY FOR BASIC INDUSTRY, U.S. DEPARTMENT OF COMMERCE

Mr. **Kelley**. I've come a long way and I'm enjoying the 70-degree weather every second of the time that I'm out here. I may stay and defect out here.

Mr. Kristensen could not make it today because Gus Kuehne who is going to be leaving after he testifies to go back to Washington to talk on the shakes and shingles area is in Washington to do that.

I've brought with me today, Michael Hicks, who is an international trade specialist in the forest products area who will be my leading person in the Commerce Department study.

Mr. Hicks is not unfamiliar with the Oregon area. He used to be with The Bureau of Land Management, and he used to be stationed in Salem, OR, even though he's originally from Virginia. So he does have a forestry background, he does understand the industry fairly well.

Also sitting behind me in the cubes back here is Karen Isaac who is in our district office here in Portland, and very soon, if not within the next week, Mr. Richard Lenahan, who is our district officer in Anchorage, and who has a very vast background in the type of problems experienced out here in the Pacific Northwest in the forest products area, the minerals area, fisheries area, will become the new head of the Portland District Office for the U.S. Department of Commerce, and we will probably be working with him very closely on this study area.

I've submitted my statement for the record, and I'd like to make some brief remarks.

I am Michael T. Kelley, Deputy Assistant Secretary for Basic Industry Sector in Trade Development, U.S. Department of Commerce.

First, I'd like to tell you that everyone in Trade Development, indeed, through all parts of the International Trade Administration of the Commerce Department is totally committed to increasing U.S. exports. The Department provides a number of export related services and one of its highest priorities is to assist potential exporters in every possible way.

A few of the Department's export related services include export counseling, overseas sales leads, trade missions, trade shows, locating overseas agents, and exporting trading companies. The Department can also provide assistance with export licensing, attracting foreign tourists, and meeting foreign standards.

My sector, the Basic Industry Sector, includes the construction and chemical industries and all metals in addition to forest products. That includes, by the way, the aluminum industry which is a fairly significant factor out here in the States of Oregon and Washington.

Over the past 4½ years, we have striven in each of these areas to improve the U.S. balance of trade, whether it be by objecting to unfair imports, by working to lessen barriers for trade in other nations, or by promoting U.S. exports.

In particular, my forest products staff has been deeply involved in the solid wood products issue since Trade Development was established in early 1984. About four years ago, this staff released a major report on the solid wood products industry which stressed the importance of increased exports for the U.S. industry.

Since that study was published, these solid wood products experts have participated and supported talks with the Canadians on the softwood lumber, the MOSS talks with Japan, the InterAmerican and Pacific Rim Housing Conferences, and were instrumental in the 201 Western Red Cedar Shakes and Shingles decision.

In addition, they have prepared studies on the forest product sectors in Brazil, Mexico, and the Caribbean. Hardly a week goes by that my staff does not get calls from solid wood producers who need guidance on how to go about exporting, or who need market information and data.

So you can see that we have not been neglecting the forest products industries on this issue. By the way, this is the study I was referring to. This is probably the bible that eventually led to the Canadian negotiations in which the wood products industry, which we worked very closely with, worked with us on. So I think we've had some training in working on reports such as those being projected for this Group, and especially this type of area.

The other two, I will give to the Congressman. One is the report on Brazil, and this one is the report on developing papers markets in Mexico and the Caribbean. So there has been some expertise developed in these particular areas, albeit we're a small staff, but I think we have the competence in those areas.

I'm sure that my analysts, particularly in their participation in the MOSS talks, and the Canadian softwood negotiations, have made real contributions to the increased growth and prosperity of the solid wood products industry, especially that portion of it located on the West Coast. These industry experts tell me that 1988 will be a year of continued growth and prosperity for the industry and that significantly increased exports are a major part of the improved industry projects.

It is clear that with the domestic demand expected to be relatively flat in the year ahead, continued growth in exports is vital to the prosperity of the solid wood producers. My solid wood products experts are well equipped by background and education to prepare the studies of the Pacific Rim Countries which Senator Packwood asked the Department to undertake.

Our goal for the studies, the first of which will be Japan, is to examine the market potential for wood products in these countries, and to find out all we can about impediments to trade. We will study the Japanese market factors for all solid wood products as closely as possible.

Clearly, we will need all the information that we can assemble on demand, supply, price, and other economic variables, since the study will be no better than the information used to prepare it.

For this reason, we are very encouraged by the pledge of support we have received from the solid wood products industry. It is evident that we will be given their wholehearted support, and I feel that this greatly increases the possibility of a really useful study.

Industry support will also be required for the selection and analysis of impediments to trade. There are many such impediments or alleged impediments and a key part of the study will be to choose those which need study and examine them as thoroughly as possible.

Let me review now where we are with the study.

My staff has produced a working outline which I believe we gave to your staff last week in Washington, and which, if you would like, I'd be glad to submit for the record. If you'd like the outline of the Japanese wood product file study that we're going to do, we'd be glad to submit that for the record. We did give that to your staff last week.

Chairman **Wyden**. That would be very helpful to make that a part of the record.

[The Japanese Solid Wood Products Market: Profile and Outlook, may be found in the appendix with Mr. Kelley's statement.]

Mr. **Kelley**. As I said, the industry has pledged assistance in filling in these missing pieces. All Government and private sources of wood product information that we know of will be investigated. We are also planning a fact-finding trip to Japan, and we are committed to preparing a detailed report as the information we uncover will allow, and we will leave no stone unturned in the examination of the Japanese and other Pacific Rim Countries' forest product industries.

As you may know, our original objective was to study the entire Pacific Rim at once. However, the shortness of time and the lack of staff has resulted in a country by country approach. Japan, the largest Pacific Rim market, has been chosen to be the first country for review.

I must tell you that my staff has a heavy on-going workload and is currently involved in writing their portions of the 1989 U.S. Industrial Outlook which gives an industry by industry analysis, and has to be given first priority right now, or the publication will not be ready by the end of 1988.

In spite of these constraints, I can assure you that we will consider the study extremely important and that we are very pleased with the pledge of industry support, and will make every effort to produce a first rate study.

I should also say in closing, the study will be the sole responsibility of the Department of Commerce. We alone will be accountable for its content. Now, we hope to have the Japanese study done by the 31st of December and then immediately, as we had discussed in Washington, move on to the other countries. With this type of background that we've developed in the Japanese study, we figure that we can move much quicker on the other countries.

Thank you, Mr. Chairman.

[Mr. Kelley's statement may be found in the appendix.]

Chairman **Wyden**. Thank you very much.

Would you like to have your associate make any comments, or is he here for questions?

Mr. **Kelley**. He'll be glad to answer some questions if we get into a technical area. That's why I have a technical person next to me.

Chairman **Wyden**. Let me again thank you for coming, and appreciated you being in the office last week. I think we share the same view about how the process is supposed to work. You can't have 535 Members of Congress acting like trade negotiators. That's the job of the administration. And we want to support aggressive negotiating efforts.

We certainly have had what I think is a significant victory with respect to plywood on the U.S.-Canada Free Trade Agreement, and I'd like to think the hearing of this subcommittee really broke that open, because until then, we had not been able to make sure that the principle of dropping tariffs for the Canadians would not be done until non-tariff barriers were dropped on their end.

So I think we have a good case history to go to, and it's against that that I want to talk really about where we go from here. Since you were in the office, I've read the testimony and listened to the views we've heard today, and frankly, I am concerned.

I'm concerned about where we're going. We have these negotiations coming up.

Let me try to ask you some questions to deal with that.

Do you by and large agree with what the industry people have said with respect to trade barriers? What they've basically said is that we're barrier free for all practical purposes. These Pacific Rim Countries can get into our markets, but that there are significant barriers to our industry in overseas markets.

Mr. **Kelley**. I don't disagree with that. I have the ISAC-10 under my jurisdiction of which Mr. Donnelly is the chairman, and also the paper ISAC. A lot of these types of barriers that we're talking about, we are aware of those, also in some of my other basic industries.

As I pointed out earlier, I have the chemical industry, which is a net exporter similar to the wood products industry. I have the energy areas which coal 'exports which also is a net exporter. I have the aluminum industry. And we had done about 2½ years ago, a study that was a follow-up to a study that Senator Hatfield had asked us to do on electric rates as it affected the aluminum industry about four years ago.

And as a result of that study, the aluminum industry came back to us and asked us to do a similar study on non-tariff barriers worldwide for the aluminum industry. We completed that study and the aluminum industry is now using that very effectively both from a legal point of view if they have to deal with dumping or countervailing duty, and for marketing exercises to try and break open some of these barriers.

I foresee, to be very frank with you, a lot of the areas that the previous panel discussed and the first panel discussed, we are not in disagreement with that because it's not just the paper industry or the wood products industry that have these problems. A lot of my basic industries have these types of problems and specifically in the Pacific Rim.

There's no question that the wood products industry, all the way from logs all the way up to a value added product are absolutely competitive in those areas if these types of barriers weren't up.

But that's exactly what we hope to be able to see and find out as we try to do this unbiased study of the Pacific Rim.

Chairman **Wyden**. So, we've established that by and large, you feel the industry representatives have been correct and of course what they have said is in line with what the Congressional Research Service says as well.

Given that, why don't we start by having you outline the strategy that the administration is going to take in the three upcoming negotiations. The first is that one with respect to the Japanese on August 29th. What is the administration going to do specifically in the round that begins this month?

Mr. **Kelley**. Let me go back and put a little historical perspective on it. Because I think at least in some of the questions and answers that came out in the previous panel, there was a misnomer that we were ignoring the wood products industry.

There would be no U.S.-Canada Free Trade Agreement if we didn't solve the Canadian wood products problem. That was made very clear to us by the Oregon and Washington delegation three years ago. So the idea that we are not paying attention to the wood products industry I think is sort of a misnomer.

We have paid a great deal of attention, I think, in light of the plywood situation which you correctly referred to and how the delegations out in the Pacific Northwest paid a great deal of attention, put an awful lot of pressure on the administration to deal with this in the Canadian areas. We have paid a great deal of attention to that.

In the MOSS talks with Japan, the previous MOSS talks with Japan, there was a great deal of interaction among the ISAC–10 and the paper ISAC to help the U.S. negotiators in the original MOSS negotiations.

Now, the problem we've had, to be frank with you, in getting this issue on the table with Japan has really been that we've had to deal with the Canadian talks and the Canadian talks have obviously included the lumber and paper issues, and the plywood issues, OK. That has caused us a great deal of time, and to be frank with you, we don't have that many people who can go worldwide and take each country at the same time.

We've also had a significant amount of negotiations going on with the European community on lumber products and on paper products, which also has taken up a fair amount of time.

Now, on the Japan talks that are coming up on the 29th, what will happen will be that Maureen Smith, who is the Deputy Assistant Secretary for Japan at the Department of Commerce, and Louie Long who is very well known to most of the people here in this group, an Assistant Secretary for International Economic Policy, will be the leading people going over to Honolulu to initiate these talks.

These talks are not going to be completed within one week, two weeks. The Japanese have what I always call, for those of you who understand basketball, a Dean Smith offense as far as dealing in negotiations. If you'll remember, the North Carolina coach always used to put four men in different corners and start passing the ball around late in the game.

And the Japanese have an ability to do that quite a bit. And so I don't foresee immediate results from the MOSS talks, immediate results being in terms of one month or two months. I do see, though, a special emphasis being put on these particular talks both to the end of this administration and whichever new administration comes up where lumber products will get a much higher profile.

If anything, the study that we're going to do is going to cause that profile to be much higher. If anything, because of the statements that the previous panel has made about a $2 billion market, and I personally think that may be even low, having just come back from Bejing on a building trades mission, and also having been to Korea and other areas, that may be a low number when you start talking about value-added products. I think Mr. Donnelly made a very good point that we have to look at these markets that haven't been developed yet, that have good export potential.

We saw that in China. It's mind-boggling when you look at the construction industry in China. We have a TDP project in China now with the National Forest Products Association to help start dealing with building standards in China. We're working on those areas.

I think the market's probably bigger than we realize in these particular areas. We get 25 calls a week now in the last three months from smaller companies that are up to what I would call the value-added line within the wood products industry, asking how to export. So we've seen a stark change just in the last four months with the change in the dollar, with the Department of Commerce's Export Now initiative that we've taken underway where the wood products industry up the line is now starting to realize there is some potential over there.

So the numbers that the previous panel has given I think are conservative numbers. I think you live with the conservative numbers. At least, this administration lives with the conservative numbers, and then go from there. But looking at it as a person who has also been in this industry on the outside, I think the numbers might be bigger.

Chairman Wyden. You said a number of things that I think are important.

One is that timber will get a higher profile, and I think that's clearly important to the people who are here today.

Second is that you recognize what kind of numbers we're talking about and I appreciate your statement that $2 billion might strike you as being low.

But I do want to come back so that we know, on the record, what the administration's goals are, at least, for this upcoming round. Are there spelled out some goals that the administration seeks to——

Mr. Kelley. We obviously are going to deal with tariffs. We obviously are going to look at certain non-tariff barriers that have been described by ISAC-10, the recommendations they've made on Japan, that NFPA has put together. We will be looking at those particular aspects.

But I really, for public consumption, do not want to be putting out what the U.S. strategy is. I mean, we'd be glad to sit down quietly and talk with you at your office or something like that. But at this point in time, some of those things I'd just as soon not put out to the public.

Chairman Wyden. Do you need at the Department of Commerce more staff people to take on the wood products issues so that they'll get the higher profile you're talking about?

We've heard from the witnesses, and you've said yourself that you're short for various reasons. I don't want to put you in a difficult spot and why don't we word it this way.

Mr. Kelley. No; because Jim Miller has a bomb underneath my chair.

Chairman Wyden. I understand.

If you had more people, would that make it easier to get the higher profile you wish to have for forest products?

Mr. Kelley. In terms of more people doesn't mean that we go out and hire more people, nor do we move people around from lesser priorities within the Commerce Department, and so forth. Yes; I think that this particular area because of its export potential, you always want to, from a manager's point of view, emphasize those areas more than you have to emphasize areas that might be dying industries or losing industries. This is not a dying industry, this is a growth industry.

So obviously, I could use maybe two more Mike Hicks here. We could obviously do those studies a lot quicker. But that's really a management question, and I think that this can be resolved once the MOSS talks start. We know we have the upcoming GATT negotiations. The Canadian issue is not going to go away. You know that as well as I do. It's going to be a 10-year period to get a program like that into effect. The phase out is going to take at least 10 years for a lot of the tariffs in those areas.

So yes; and again, as I say, this is a growth industry. This is not a dying industry. It's an industry the United States has tremendous competitive advantage in, both right in its basic natural resource base and all the way up into the value added line. So there's no question about it.

And I would hope that not only that Congress would support those particular aspects, but I know this administration, now that we are starting to move toward the new round of the MOSS talks, we are very actively moving in the GATT areas.

It was mentioned that the agricultural group is where the main focus is in the GATT negotiations for timber and that. But as we talked about last week, there is also a backup group which most people, including a lot of what I call the trade junkies who work in Washington have not paid much attention to, and that's the natural resource section of the GATT negotiations.

This is the area where all your natural resources issues are located. It will be a monitoring activity at this particular point in time. But if some of the issues that the forest products industry is pushing do not take place in the subsidies group, the non-market group, or the agricultural group, this is another group where this area could be discussed. It's an area that I think the sophistication level of a lot of our people and the Europeans and the Japanese haven't begun to recognize. The natural resource group is one of 14 groups that have been set up.

We had a very successful educational exercise in Geneva in June where for the first time the Europeans, the Japanese, the Australians, and the Canadians started to realize that this natural resource issue is a big issue in trade, a big issue in trade. And we've really got to focus on that area.

And forest products is a big area in natural resources.

Chairman Wyden. I appreciate your comment on needing more help, and I think this is something that we're going to get our Forestry 2000 Task Force to try to move on very quickly. Because I think with these negotiations, we're just missing the boat if we don't do something about getting you the resources needed to follow up.

I was particularly concerned that there was no specific person at USTR to handle forestry issues.

What's going on there?

Mr. **Kelley**. I think that's also sort of a misnomer. Mariam Burrell who has handled that issue, and of course, Alan Woods, who is now the head of AID, handled those areas. Mariam has taken a six-month leave to go work for OECD, and they haven't replaced her.

But most people don't understand. USTR is our negotiator. They're not the analytical arm. And most of the work that's done in forest products areas, when we go into these negotiations, when we went into the negotiations with Canada, most of the work was done by Commerce. It wasn't done by Alan Woods. Alan Woods negotiated the areas, but Ann Hughes over at Commerce and our people were the ones who provided most of the backup.

So I'm not really that worried, to be frank with you, if USTR doesn't have an expert in the forest products area. What I want is a good negotiator, a guy who can understand the tactics when he goes into the negotiations. We can give him the backup information. We can provide him the support, the industry can provide him the support.

I don't think anybody will admit that Alan Woods knew that much about forest products when he went into the Canadian negotiations, but he had good backup from the ITC, from the U.S. Department of Commerce, and from our forestry service to do that.

So that's, I think that's a little bit of a straw man. I'm not really that worried about it. And I don't care whatever administration comes in next, USTR is a small agency. There are only 200 people in it. And their ability is to negotiate, not to be an expert.

Commerce is where the experts are located, or Agriculture is where the experts are located. We don't need to create a whole new bureaucracy, I don't think, in USTR. What makes USTR unique and good is because they are small and they can move fast, even Bob Strauss in the Tokyo round said that was one of his best advantages, that they weren't a big bureaucracy.

Chairman **Wyden**. What concerns me is that we have problems everywhere. You've basically said that you need more help. We heard from National Forest Products Association that there weren't enough resources. And now we hear that the USTR had somebody who specialized in forest products and they had to take off because of a personal situation.

So we're falling short it seems to me at every step along the way.

Mr. **Kelley**. But that person at USTR who handles that area is really just a person who coordinates the effort. The negotiations on those levels, if they get into those negotiations, will be done on either the ambassadorial level or a higher level than that person. And those people are there to do that.

Chairman **Wyden**. I'm not going to belabor this. If we weren't coming up short everywhere, I wouldn't be so concerned. But it seems that every stop along the way, timber hasn't had the highest possible profile, and you've said that you want it to have a higher one. And I appreciate it.

Let me ask you about a couple of specific situations that were raised in the testimony.

Steve Lovett talked about third country situations in his prepared remarks, specifically the 10-percent Japanese tariff against plywood that was set up to stop government subsidized Indonesian plywood, effectively blocks the imports of U.S. plywood sales as well.

What's being done on third party situations to remedy those problems?

Mr. KELLEY. I think that's an issue that we will discuss in the MOSS talks with Japan. There is a country out here——

Chairman WYDEN. Are you going to do that one in August?

Mr. KELLEY. I believe that's one of the areas of the talk. But there is a country that nobody's really discussed that much here. And we, at least my group, has a particular problem with it. And that's Indonesia, and especially in the plywood area. I think it's a scenario that we have to look a little bit closer on. I think we have some real problems with Indonesia, first of all in the way they do business. And second of all, the way they are doing business in the Pacific Rim that is having an impact on our area.

I think that's an area that we have to look at, and maybe that's not something that we'd deal directly with Japan on. We need to deal with Indonesia directly.

Chairman WYDEN. What about 301 actions, Mr. Kelley? Has the administration—apparently there was a piece on this in the New York Times recently. Has the administration ever indicated that it would bring a 301 action if there weren't relief from some of these barriers?

Mr. KELLEY. Against whom?

Chairman WYDEN. Well, against any of the countries that——

Mr. KELLEY. At this particular point in time, no, because our ISAC-10 has not advised anything on that area, nor have we received anything from NFPA to do a 301.

We are doing 301's in some of my other areas, and you've seen that already in Brazil with the intellectual property rights question. And the pharmaceutical manufacturers people just filed one in Argentina the other day.

But I personally have not seen any 301 actions in the forest products areas.

Chairman WYDEN. And none you feel are warranted at this point?

Mr. KELLEY. It's hard to be warranted until we understand what our study's going to find out. And that's really one of the major purposes of the study. Once the study is done, then either the industry or the new administration will have an opportunity to look at some of these areas, and maybe something's warranted. And you have made some changes in the 301 process, as I understand it.

I think Alan Wolff could probably answer that a little better than I could, but 301 process in the new trade bill as passed by the Congress. So there could be some interesting activities next year in that area. But it's going to require the study to be completed first, before we really can look in those areas. You can't really initiate a 301 study unless you know what you're dealing with.

Chairman WYDEN. All right. I think that's a fair comment.

I mean, the fact of the matter is, we really have to operate on two tracks. The Commerce Department study we're going to try to get you some more help for that, because I think that's critical. It's part of a long term strategy, and clearly that's how we have to pursue these, because these markets have so much potential.

But we also need a short term strategy, and you can't pass up these talks that come up simply because you say, well, we're going to deal with it another time. So, we are anxious to work with you on both of these counts.

And I guess the only other things that we're interested in, we could ask you for the record. The subcommittee would like to know, for example, how many wood-related trade missions and shows you've had in the Pacific Rim.

Do you know that off the top of your head?

Mr. KELLEY. No. But I can supply that for the record.

Mr. HICKS. I don't know it either off the top of my head.

Chairman WYDEN. Do you feel that you have had a number sufficient to do the promotion that forest products is concerned about?

Mr. KELLEY. I don't quite understand your question. If you'd repeat it again.

Chairman WYDEN. You know, clearly this is one way to increase export markets. Do you all feel you've made a high enough priority of Pacific Rim trade missions and shows?

Mr. KELLEY. Have we done them before?

Chairman WYDEN. Have you made that a high enough——

Mr. KELLEY. Yes; we have. The mission I just completed to China was a building materials mission, and to be frank with you, I spent about half my time working on this TDP grant program to make sure that the Ministry of Construction in China, which is the major ministry, will be the controlling factor in this area. Because what we're dealing with there is a change to building standards and all that.

Will there be other trade missions? Yes. We see this coming up because of what I've said, in the last four months, we've just really started to see the middle level, lower level groups within this industry, the smaller groups and that, the value-added groups just start to be interested in this export market. So, yes; I do see that.

Chairman WYDEN. Let us have that for the record, the number of shows and missions that you've had and what sales opportunities they've led to.

There's one other important question though that concerned me about the Congressional Research Service report. In it, they talk about what really is, in their words, a bewildering conglomeration of Federal activities that they call a daunting challenge to prospective exporters.

Are we at the point now where we ought to consolidate some of these programs and efforts into a more streamlined efficient process?

I mean, when I asked the Congressional Research Service to do their analysis, I was asking for foreign obstacles, and they came back and basically said, hey, you know, here's a homemade barrier.

Mr. KELLEY. I haven't seen the report. I'd like to take a look at it. Because, to be frank with you, the only players in the U.S. Government that are dealing with the forest products industry on exports is the Foreign Agricultural Service and the U.S. Department of Commerce. And I don't know of any other agency that's involved in it.

What are some of the barriers may be Federal law as dealing with logs and other areas, but those are laws, and Commerce doesn't administer those. I'd like to see the report and maybe come back and comment on that, because I really don't know, I don't know of six different agencies that are involved in the export trading areas for either logs or value-added wood products.

Chairman WYDEN. The report speaks of the Foreign Agriculture Service, the U.S. Export-Import Bank, the Small Business Administration, the Overseas Private Investment Corporation.

Mr. KELLEY. But in reality, if you go into an export program, you have a one stop situation right at the Commerce Department where we put them together with Eximbank. If you're going to export, you need financing, you go to Eximbank.

If you need liability insurance to go into a country where you may have political risk insurance, you go to the Overseas Private Investment Corporation. And Foreign Agriculture Service under a separate appropriation has their own money to promote at least certain wood products exports. So in reality, if you just came to Commerce, you came to my group, or as a small business man, you went to our district office, and we could coordinate that whole thing for you.

So I guess the problem I have is that nobody from the Congressional Research Service talked to me about that.

Chairman WYDEN. All right. We'll make sure that they do and you can understand when they describe our export activities as a bewildering conglomeration, that gets Members of Congress who are concerned about wood exports somewhat worked up.

Mr. KELLEY. Having worked on the Hill, I know the excellent job that the Congressional Research Service can do, and I also know that a lot of times, they're under a tremendous amount of pressure to do certain things, and I think like us, they can't touch all the bases.

But we would like to sit down and talk to them about these areas, and I think we can at least correct that particular misnomer. Because if it is a misnomer, it's going to hurt all of us.

Because, as I said, we're getting 25 calls a week from small businessmen, and that type of confusion doesn't need to be out there, because most of your Oregon businessmen can go right to our district office here, and every one of those questions that the Research Service brought up can be answered by that office.

Chairman WYDEN. You all have been helpful. There's much to do. And as I say, from a philosophical standpoint, it's my view, a strongly held view, that the process only works if Members of Congress are working with the trade negotiators who have to get into the nuts and bolts. So we will look for ways to address these issues.

Your commitment to make them a higher profile set of concerns in the future is something that I think Oregonians want to hear about and we appreciate it.

Mr. KELLEY. I think that it's extremely important that the congressional delegation and the Congressional Group 2000 deal with these issues because, to be frank with you, you know as well as I do that there are a lot of different pressing interest groups in the trade area, and the lumber industry needs to—and they have done—but they need to get their voice heard down in those areas.

I think if they do, they have a very good story to sell because they are competitive worldwide.

Chairman WYDEN. Thank you both very much.

Panel three consists of Robert G. Anderson, director, Market Research and Economic Services, American Plywood Association; Malcolm Epley, Jr., vice president, Western Wood Products Association; Gus Kuehne, executive vice president, Northwest Independent Forest Manufacturers; Adolf Hertrich, president, Vanport Manufacturing; Rolf Glerum, Pacific Rim Trade Association.

I think we may have a table just barely long enough, and we'll get some chairs.

Gentlemen, we welcome all of you.

In the interest of time, let me say I'm going to have to keep you each to five minutes on this panel, and I think most of you said you were very comfortable with that. We'll put your prepared remarks into the record in their entirety.

Why don't we start with you, Mr. Anderson.

TESTIMONY OF ROBERT G. ANDERSON, DIRECTOR, MARKET RESEARCH AND ECONOMIC SERVICES, AMERICAN PLYWOOD ASSOCIATION, TACOMA, WA

Mr. ANDERSON. Thank you, Congressman Wyden. It's a pleasure to be here to present the views of our Association and our industry. We're very supportive of your efforts to help the industry in its efforts to expand markets, and we appreciate your past help.

I am director of the Market Research and Economic Services Department for the American Plywood Association. Our group represents roughly 80 percent of the structural panel industry, that's the plywood and waferboard oriented strand board industries in the United States.

While my remarks are geared primarily toward the plywood industry, they do have a relationship to the lumber and other wood products industries as well.

I want to make three points and I will be more brief than my statement, three basic points. The first is the long term need for industry Government cooperation in the development of markets.

The second is a basic reiteration of how we have worked together and some of the problems that face us in the immediate future.

And then the third item that I would like to talk about is a couple of specific things that would be useful to us in the way of Government industry cooperation.

The first point, long term, our industry is looking forward to a marketing condition which is very similar to the disastrous kind of condition we experienced in the early part of this decade. The demographics will tell us that population trends will cause a decline in family formation of about 300,000 couples a year, beginning in about five years.

What that really means is that the industry is going to be looking for a replacement market for about 2 billion feet of structural panels. That doesn't sound like very much but if you'll remember what happened back in 1980, 1981, and 1982 to the industry, we had a tremendous dislocation. Lots of people out of work. Lots of problems within the industry. Of course, housing became inaccessible to many people and it became a problem.

Now, obviously there won't be as many people who will be needing housing, because the family formations won't be there. But for us to sustain the industry and sustain the employment within the industry, we are dealing with a need to find a 2 billion foot addition to our market. That's only five years from now.

Our role in the development of markets of course points the direction. We have done a good job so far. We have been actually replacing markets in the past 20 years. In the 1970's we were dealing with about 1,900,000 housing starts. In the last decade, we were dealing with about 1,500,000 to about 1,600,000. We'll be dealing with about 1,200,000 to 1,300,000 in the next decade. So we have found ways to get into non-housing markets.

The particular thing that I would like to talk about is the export market. Offshore is the very great hope, I think, for our industry. It's the only realistic hope for gaining the massive kind of market development that is needed to sustain the industry at its current level starting in the early 1990's.

We do know a good deal about market development, domestically and internationally. Japan I think is a good example of Pacific Rim market development. Japan is our number one target.

In Japan, they build roughly 1,300,000 to 1,500,000 housing starts a year, which means that from the housing point of view, they could be very close to the same sort of market that we have here. In other words, they could use 10 billion to 12 billion feet of our product. In 1987 we shipped 12 million square feet to Japan. So you can see just about the difference in scope in the opportunity. We've made some strides in Japan. We've gotten a tariff reduction to 10 percent. But as Steve Lovett said, the 10 percent still provides a tariff barrier which is a bit difficult to overcome.

In terms of non-tariff barriers, we have made some steps through the MOSS talks in breaking down product standards and getting them to be more acceptable. We are in a position in building codes whereby we are on a prefecture by prefecture basis, that's sort of like State by State basis for getting approvals within Japan for buildings of three stories and four stories out of wood construction.

This kind of development in Japan came about through the cooperation of government and industry. The fact that the Summit House, a major promotional effort in Japan that was supported by government, that house required a tremendous number of changes or variances in the building code. They were developed.

We got the Ministry of Construction in Japan to go along because of the MOSS talks to make changes that would allow three story wood construction. It now is a fact. So it was sort of like the government helped. It was like giving us the two-by-four to hit the Minister of Construction over the head to get his attention.

We basically did that. We are going along and now we look like we're going to make some additional progress in Japan. The new MOSS talks will deal more with building code standards and with product specifications and standards, and will help us in some of the problems that we have there. We are anticipating that that will be a very great help.

I think that the other three major countries that are target countries for us are Korea, China, and Taiwan. And I think that the points have been made as to what some of the non-tariff barriers are. They are many. They will require both industry and Government participation.

I'd like to bring home one little bit of this thing. We're concerned of course for the entire structural panel industry. And we'd like to develop all of the Pacific Rim markets because we visualize that the entire amount of the Pacific Rim demand could make up this shortfall that I had talked about, the 2 billion feet. But taking those four countries, we can get to about 750 million feet in the four countries in reasonable penetration if we have the tariff and non-tariff barriers broken down.

I think our concern for the West is very clear. The West, Oregon, is the largest producer of structural panels, 55 mills, Washington is fourth with 18 units, and the Pacific Rim markets obviously are the major market areas where these mills will have the greatest amount of potential and good penetration.

So it is very important to this Western region to make sure that this kind of cooperation between Government and industry is continued.

We certainly appreciate your support, and I do thank you. I hope I haven't taken too long.

[Mr. Anderson's statement may be found in the appendix.]

Chairman WYDEN. We very much appreciate your testimony, and we'll have some input.

Mr. Epley, please.

We will make a copy of your statement a part of the record, and just so we can have some time for some questions, if you could, please highlight some of your key concerns.

TESTIMONY OF MALCOLM EPLEY, JR., VICE PRESIDENT, WESTERN WOOD PRODUCTS ASSOCIATION

Mr. EPLEY. Western Wood Products Association, represents sawmill manufacturers from throughout the Western United States, about 60 percent of the U.S. production is represented by our industry.

I want to go directly to trade barriers and a little philosophical discussion.

First of all, I think we could be supportive of most of what Mr. Lovett had to say, generally. I'd like to narrow in on some specific points.

There are tariffs sometimes established at high levels to prevent foreign product penetration in investing markets, and then there are non-tariff barriers which can be created as protection moves by a country intending to deflect outside competition.

In addition to this, there's a third type that I think we're all familiar with. It might better be called a marketing barrier, even though it is a trade barrier. And a good example of that might be the Japanese building codes, which have restricted wood use in three-story and higher structures. Those codes have evolved through a natural process, though they have not favored wood in the past, is a direct reflection of the Japanese fear of fire, at least partially a throwback to the fierce fires suffered by Japanese cities during World War II.

As far as Western lumber is concerned, Japan does have tariff restrictions U.S. lumber shippers do not consider reasonable and which cause restraint in trade. While sawn lumber in most species and round logs in all U.S. species are accepted in Japanese ports free of duty, undue sawn lumber tariffs still persist on Western pines and spruces. These have been recently decreased to 8 percent for finished lumber.

Nevertheless, since the higher valued select or clearer grades are most or frequently found in the pines, even a small tariff percentage can result in a considerable penalty. These tariffs seem to do little service for the Japanese, but considerable disservice to the American pine and spruce shippers. Besides the financial penalties involved, the duty processes, whether for tariff or non-tariff items, create costly delays at the ports of entry.

We believe that these tariffs should be eliminated and we hope that can be accomplished at the GATT negotiations.

We would hope import assessment procedures can be simplified as well to reduce time requirements for incoming product shipments.

Similarly, tariffs should be eliminated on laminated products and certain non-tariff trade barriers in Japan also deserve special attention, for instance, the Japanese government rejects U.S. tests, requiring products to be retested there at high cost in Japan. The government also does not recognize U.S. based grading capabilities which could eliminate regrading or certification processes.

The WWPA has conducted market development programs in Japan formally since the early 1970's. We operate an office in Tokyo staffed by a Japanese national.

Another area that we have conducted activities in is Australia which is very important to us. It runs between 100 and 200 million board feet of lumber there, very important to the Pacific Northwest particularly. Oregon pine, which is Douglas fir is preferred enough there that a whole technique for building design and construction has developed there accepting what is known as scantlings which is a rough sawn version of the sawn lumber product which has a 5-percent duty.

China's primary wood interests lie in round logs and in acquiring the technology to process them. While logs and cants are accepted at a 3-percent duty, sawn lumber products typical of Western U.S. mills are levied at a 9-percent tariff.

On both of these product categories, I am told, there is an additional but unpublished duty called a product tax which is collected at the time of entry which boosts that up another level.

Also fabricated wood products such as joinery doors, windows, moldings, and so on, are taxed as high as 50 or 60 percent.

Generally, as I said, we can support much of what Mr. Lovett has outlined in terms of activities. We do want to make a special point of the assistance by the Foreign Agricultural Service, FAS, and the programs that WWPA has conducted.

Thank you for your support in having us come and testify here.

[Mr. Epley's statement may be found in the appendix.]

Chairman WYDEN. Mr. Epley, we thank you.

Mr. Hertrich, we welcome you, and you have been working to fight your way through these markets for some time, and we appreciate your coming today.

TESTIMONY OF ADOLF HERTRICH, PRESIDENT, VANPORT MANUFACTURING, BORING, OR

Mr. HERTRICH. Thank you, Mr. Chairman.

I want to limit my remarks just to my personal experience in the Japanese lumber market. We have now for more than 10 years manufactured lumber almost exclusively for Japan. And for our product, fir hemlock lumber, there is no import duty in Japan, and has not been. And there are also no quotas.

The main problem seems to be that most other sawmills are trying to push American type lumber both in sizes and grades rather than trying to cut exactly like a Japanese sawmill does.

And I think this is the main reason why you see a supposed level difference in price level, two-tier price level between those products. As was pointed out earlier today, as an example, a 4x6 number 1 Douglas fir would bring a substantially lower price than a product cut to approximately the same dimension in the metric system, also called a number one in Japan.

But you cannot compare those two because they are two different products, two different grading units. If you would cut it to the metric size and grade it by Japanese grading rules, you would get the same price for it and maybe even a little bit more. Because our raw material basically is better than what a Japanese sawmill can get.

So I think our effort should be to reduce the actual tariffs regardless where they may be. But I think too much is often made of the so-called non-tariff barriers. I think if we do what most foreign companies do when they come in and get into our market, they study what we as customers need, what we want.

And if we would do the same thing over there, a lot of those non-tariff barriers would become much less of an obstacle.

Thank you, Mr. Chairman.

Chairman WYDEN. Thank you very much, Mr. Hertrich. And I share your view that a lot of what we have to do is essentially homemade sorts of changes. We have to make products that people want. And I don't care what you do in terms of removing trade barriers, you have to figure out how to make products people want.

I do think that there are some barriers we ought to be removing, and then people like yourself and others can get even greater access. And I appreciate your commitment to the kind of quality changes that you all have been willing to make, because if we don't do that, all the legislation, all the negotiations together aren't going to do it.

And I think your point is very well taken. And we appreciate it.

Mr. Kuehne, we welcome you, and we know you're on a tight schedule.

TESTIMONY OF M.J. GUS KUEHNE, PRESIDENT, NORTHWEST INDEPENDENT FOREST MANUFACTURERS

Mr. KUEHNE. Thank you, Mr. Chairman.

I represent Northwest Independent Forest Manufacturers, an association of medium-sized and small sawmills and some plywood plants, and veneer and shake and shingle producers.

As far as the lumber production of our membership is concerned, I believe that over half of it is being exported, and I think that's about the highest of any of the associations in the country. I doubt if there are any that have a higher percentage.

Three of our members' sawmills are wholly Japanese-owned mills. And most of the membership is in Western Washington, largely in the Puget Sound/Olympia Peninsula area. We feel that mills in the Northwest are among the most efficient in the world, as described by NFPA. We feel that we have efficient manufacturing facilities, that we have reasonably competitively priced labor, and certainly we have among the best softwood saw timber found anywhere in the world.

Yet, we find that a very high percentage of the timber that's being harvested in the Northwest is being exported as logs. And in fact, it began in the 1960's, that it was only a couple of percent in the early 1960's, and grew to about 20 percent of all the timber harvested in Oregon and Washington by the late 1970's was being exported as logs.

In 1987, it was still 20 percent. We made no progress over the past decade in processing a higher percentage of the timber that we're harvesting.

I suspect when the final figures are in for 1988, that we'll have exported a higher volume of logs and a higher percentage of the timber that's harvested than at any time in our history from Oregon and Washington.

I don't consider that as progress. And let me explain why. We have a declining timber supply in the Northwest. There's been a dozen studies made over the past decade, all pointing to declines in the harvest that will be available from public lands and private lands. Public lands for various environmental reasons; private lands because they've been harvesting at a higher level than can be sustained.

We think that the decline is going to be around a third, at least 25 percent and maybe as high as a third of the timber harvested in the past two decades will be available on average over the next three decades. In other words, we're going to have a very significant decline.

Now, when you add that up with the fact that we're making all these tremendous strides in improvement in productivity to make our mills much more efficient, and we're putting out more lumber, more plywood per employee, when you add those two things up, it suggests a very ominous future for the industry as far as its contribution to employment in the Northwest is concerned.

Now, in fact, there's really only one way that you're going to offset that in a significant way, regardless of tariff and non-tariff barriers and whatever. I'm not saying that they're not important.

But basically what you're going to have to do to contribute greater to the economy and offset these losses from declining timber supply and increase in productivity, is you're going to have to manufacture a higher percentage of the timber that we're harvesting into products, and also a higher level of value-added in those products. But that is the only solution to maintaining a timber industry at a contribution level to the economy of the Northwest that we have seen in the last decade or two decades.

There is, in fact, no surplus of logs. The more logs we export this year, the less timber's going to be available to manufacture into products in the next 3 to 5, 10 years out. There is no surplus that we need to export in order to provide a market for the materials.

In fact, today I would say that as far as our membership is concerned, the leading problem in being able to export more lumber to Japan and other countries is having a log supply to be able to add additional shift to be able to sell that lumber.

We've had a lot of talk about the tariff and non-tariff barriers that exist, and we certainly agree with those. What we think that the emphasis of this study which I had quite a little bit to do with, I think, in working with Senator Packwood's staff and in getting the Commerce Department to conduct this study, is the major thrust of this, to us, really needs to be to answer the question, why is it that Japan and other Pacific Rim Countries can pay more for logs than mills in the Northwest can.

Now, that is a very straightforward simple question having great ramifications on what the solutions might be. Because we need an understanding, we need a comparison, for example, of wage rates. We need a comparison, for example, of mill productivity per unit. We need a comparison in Japan, for example, of the prices of the products that Japanese mills are making from our logs and the prices that they're paying mills in the United States to deliver lumber over there.

And we think that there's no way, from what we've seen of the mills over there, and as I say, we're pretty well acquainted. Virtually all of my members have been there on numerous trips, and as I say, three of the mills are Japanese-owned. We know that the mills in Japan on the average are not more productive. They're not more efficient, more modern. We know that their wage costs are quite close. And in fact, there's no way that you can have higher production costs and higher log costs, pay more for logs, and sell the product for the same price. I mean, that's economically impossible to accomplish.

So there must be some tariff and non-tariff barriers in the way. But we don't only have to understand what those are. Congress has to understand that. Our Government does. And probably more important, a lot of the people of the Northwest need to understand.

There are a lot of people, if you'd ask them on the corner, who would say, well, we shouldn't put bans on protectionist actions on our timber supply. We just need to become more efficient and more modern and do a better job or work harder, and our wages have to be competitive, and all those sorts of things.

But if we are already that, and still we aren't making any progress in selling more finished product for the timber that we're harvesting, you see, we need that absolute understanding of what the problem is. And not only do we need to know that within the industry, but you all need to know it.

It's a little bit like the Canadian lumber issue. In fact, it's a lot like the Canadian lumber issue. We speculated that the reason the Canadians were able to increase market share in our markets was because they had cheaper logs. But until a 332 investigation actually stated and put that out, in essence a seal of the U.S. International Trade Commission says that the reason is because there are lower raw materials costs in Canada than in the United States, we didn't have any basis for which to go from there on from there to a countervailing duty and to get the actions and get the area addressed, and then finally get it addressed in a way that removed in essence barriers even, there isn't even today on most of the lumber coming in from Canada an export charge. They increased their stumpage prices. They are now charging more.

Those are the kinds of solutions you can get once you understand and have it clear as to the scope of the problems. And what I would emphasize to you that this isn't only important as far as just the area of opening the markets, but it is of making the log supply that we have in the Northwest available in essence for manufacturing in the Northwest.

And I think that makes the timber industry concerns with trade tariff and non-tariff barriers much more significant than in other industries. Because not only are tariff and non-tariff barriers limiting our access to finished products to other countries, but they are also undermining our timber supply that we need to meet both domestic and international market demands.

And that today to us is even more limiting, recognizing that we buy our timber from public lands primarily from national forests and from State lands, and are very concerned about the availability of timber from State lands, and believe we could expand greatly our sales on that basis.

[Mr. Kuehne's statement may be found in the appendix.]

Chairman **Wyden**. You make a number of very thoughtful points and certainly points to think about for the long term. And we'll have some questions in just a quick moment.

Mr. Glerum, we welcome you and you're not last because you are least. We'll make your prepared remarks a part of the record, and if you'd like to highlight some of your concerns, that would be helpful.

TESTIMONY OF ROLF GLERUM, EXECUTIVE DIRECTOR, PACIFIC RIM TRADE ASSOCIATION

Mr. **Glerum**. Thank you, Mr. Chairman.

My name is Rolf Glerum. I'm the executive director of the Pacific Rim Trade Association, an Oregon-based trade association whose members consist of timber companies, tree farmers, labor unions, municipal ports, stevedoring companies, towboat companies, and individuals who are directly or indirectly engaged in the export of forest products to foreign nations, principally in the Pacific Rim.

In order not to duplicate the testimony of others who are here today, I thought it would be most productive for me to limit my remarks to the specific products and species which account for the vast majority of finished material—and I want to emphasize the words, finished, or processed, as opposed to raw logs—exported by PRTA members, namely, Douglas fir and West Coast hemlock dimension lumber.

While none of our four major trading partners places a duty on softwood logs, two of them, China and Korea, charge tariffs of 9 percent and 10 percent, respectively, on imported softwood lumber. Fir and hemlock lumber into Japan and Taiwan is duty-free.

What then are the non-tariff barriers that make it more difficult for our members to sell their products in the Pacific Rim? In a series of very informal but detailed conversations with several PRTA members, I was hard pressed to identify a single trade barrier, tariff or non-tariff, that really presented a serious problem.

Those whom I talked to claimed that their commercial dealings with Pacific Rim trading partners were relatively trouble-free and uncomplicated, with the trend definitely headed for even more open access and quick, efficient transactions.

I reiterate the fact that I am speaking on behalf of PRTA whose members include many organizations not directly involved in forest products production and marketing. Stevedoring companies, municipal ports, shippers and shipping agents and others, these organizations have a different set of problems when it comes to non-tariff barriers, and they should be addressed at a different time.

However, I don't want to leave you with the impression that we think all is well with our Pacific Rim trading practices, and that we are complacent and satisfied that matters can't be improved. There are unreasonable duties in place on engineered wood products, such as glulam beams. Japan places a duty on plywood, veneer and some inland softwood species. And we're encouraged to see that that duty has been lessened in the last few years.

Nevertheless, our members are constantly searching for a more open market with a reduction in restrictions on both sides of the Pacific as by far the best way to enhance and expand foreign trade.

Your letter goes on to express interest in the success of U.S. trade negotiators during recent years in eliminating barriers to export lumber sales. In my limited experience as an observer to government to government negotiations with the Japanese in recent years, I think the U.S. side did an exemplary job of tough and reasonable negotiations on the industry's behalf.

I can't let this subject go by, however, without putting in a plug for the reconstitution of industry to industry talks which have unfortunately dissolved. Although PRTA was not an active participant in those talks, our partner trade associations, namely, NFPA, APA, and WWPA, should get full credit for setting the agenda, if you will, for the subsequent talks at the governmental level.

U.S. lumber sales to the Pacific Rim, especially the Japanese, continue on an upward course. U.S. mills are cutting more metric lumber. Japanese builders are using more U.S. dimension in their home construction. These two trends, both increasing, can only result in better and stronger trade ties across the Pacific, which, after all, is the ultimate objective of every person at this hearing today.

Thank you.

[Mr. Glerum's statement may be found in the appendix.]

Chairman **Wyden**. Mr. Glerum, we thank you.

All of you have been very helpful.

I have only a few questions, I think partly because we have so pummeled this subject over the last three hours or thereabout.

Mr. Anderson, a question for you. One is we've just gone through this fight in terms of plywood and non-tariff barriers on the Canada side.

Are you saying that some of the Pacific Rim Countries impose similar non-tariff building code barriers against U.S. CDX plywood?

Mr. ANDERSON. This is true. There are non-tariff barriers, and there are educational problems. There are labor problems. There are harbor fees. There are various kinds of non-tariff barriers that affect the ability of our industry to provide good marketing potential in most of the Pacific Rim Countries.

Chairman WYDEN. So what you're saying is what we've gone through in Canada in terms of trying to knock down and have a formula for knocking down the non-tariff barriers, it would be your view that we have essentially the same challenge in front of us for U.S. CDX plywood all over the Pacific Rim?

Mr. ANDERSON. That is exactly right.

Chairman WYDEN. What countries in the Pacific Rim are exporters of plywood, and do these countries have similar non-tariff barriers imposed on them as the U.S. producers?

Mr. ANDERSON. Japan is an exporter of plywood. Korea has exported. Indonesia is probably the primary exporter. The types of plywood which they manufacture don't directly compete with the structural panels which our industry handles. So it's a little bit difficult to make a direct answer to that question.

What is happening, though, is there are more and more structural applications for the types of plywood which those countries produce. There are essentially tariff barriers, but reduced tariff barriers in this country, compared to what we face in those countries.

Chairman WYDEN. How has the restrictive nature of the PRC's complicated import licensing system hurt the efforts of your people?

Mr. ANDERSON. Say that again? I'm sorry.

Chairman WYDEN. The PRC system, as we've been talking about today, they have a very complicated import licensing system. Has this in any way hampered the effort to get plywood in there?

Mr. ANDERSON. It would be extremely interesting for us to be able to penetrate the market of China. It is a very large potential market. The licensing arrangement is only one part of the non-tariff barriers in China. I'm hopeful that some of the demonstrations that we have been able to build in China will be useful in getting government there to establish a way for our systems to be used, and therefore our products to be used.

Chairman WYDEN. A lot of effort, as you know, was put into the amendments to the Export Credit Guarantee Program, the so-called GSM-102 program to include plywood and other processed wood products. And the President vetoed that effort back in May.

Are there efforts now underway to include plywood and other processed products under the GSM-102 program?

Mr. ANDERSON. My understanding in the Commodity Credit Corporation programs for long term and short term financing that the Omnibus Trade Bill has language which will allow wood products, all wood products, to be considered as eligible for that type of financing.

This is a point, and I'm glad that you brought it up, this is a point where your efforts and efforts of other people in the task group have been very helpful in getting it.

Chairman WYDEN. You're satisfied, though, and this is perhaps a better way to ask it, that the language that's in the trade bill will do what it was we sought to do through the legislation that was vetoed in May?

Mr. ANDERSON. We are hopeful that it will be. That remains to be seen. It's obvious that you have to determine how that will be administered. You still have to get the Commodity Credit Corporation to put the money up and to make sure that the system will work. That's the problem that we have not yet faced. We have only gotten the starting point.

Chairman WYDEN. Mr. Epley, just a couple of questions for you, particularly with respect to the China market.

Are the Canadians making any headway in the China lumber market?

Mr. EPLEY. To my knowledge, they are doing just about what we are. I'll tell you, my expert on the China market is Mr. Lovett.

Chairman WYDEN. Mr. Lovett?

Mr. EPLEY. Mr. Lovett can probably answer that better for you than I can.

Chairman WYDEN. All right. I think in the interest of time, perhaps, we'll want to ask in writing.

What I'm trying to see is whether anybody's making any headway in getting into that China market.

Mr. EPLEY. It's my hunch that they're all about moving at the same level.

Chairman WYDEN. Mr. Kuehne?

Mr. KUEHNE. British Columbia, about three years ago, sold around 50 million feet of lumber to China, far more than we have in that one year. I'm not sure what's happened since then, but that was a deal where they tied lumber and logs together.

Chairman WYDEN. Which addresses your point about the relationship of lumber and logs being so significant in terms of the overall trading practices.

Mr. KUEHNE. Yes.

Chairman WYDEN. One other question for you, Mr. Epley.

Do you know why it is the Japanese are not recognizing U.S. grading capabilities for lumber?

Mr. EPLEY. Interesting question. We know that we can do the job far better than they can, and can deliver what they want far better than they can, and they still resist it. I would think that it probably falls definitely under the title of trade barrier, non-tariff.

Chairman WYDEN. Mr. Hertrich, I'm going to pass on you. Success stories never get as many questions as those who outline problems, but it is not for lack of appreciation of the efforts you've made.

Mr. Kuehne, you touched on a number of points, particularly for the long term that I thought were very helpful.

Given the fact that we have these upcoming negotiations, what kind of strategy do you think our people ought to be taking for these upcoming talks, there are really three sets essentially within the next six months.

Mr. **Kuehne**. I have never found negotiators to be very successful in negotiating any change in a foreign country that a foreign country didn't want to make, and in fact, in any negotiations where another country didn't want to.

The only way, in my opinion, that we will be successful in negotiating reductions in tariff and non-tariff barriers is if the country we're dealing with feels that if they don't take action, they have more to lose. So I think we have to start playing hardball and telling them what they have to lose. And I think what they have to lose is that access to our log market. That's the only thing that I can think of on a sector type basis.

When you cross sectors, it makes it awfully difficult, that is, if you compare automobiles or something like that, or electronic equipment with wood products.

So on a sector basis, in China, if they want access to our log supplies, then they're going to have to buy finished products. Until they understand that, until that comes clearly across from our Government, there's no chance of selling finished products in China.

Now, as far as Korea, I would like to see our Government initiate a 301 on Korea just right now, I mean, self-initiate a 301. I think we have enough information or we could get it together in the next few months to do that. We have talked and talked and talked.

We're making progress in Japan, and I think in that progress that what we're doing is probably, I think we have to put full emphasis on the MOSS talks on the duty on plywood being at least as low as the duty on veneer and preferably the same as the duty on logs, that is, zero. And I think if they understand that they can't tier the duties, that is, have no duty on logs, half the duty amount on veneer so that they get the job—you see, you get more jobs by making plywood, you get twice as many jobs as you do by the veneer, so they try to skew these so that they start building an industry in Japan that lays up our plywood and gets their plants converted to doing that.

So I think that's the critical number one thing in the MOSS talks is getting the plywood tariff down at least as low as the veneer.

Chairman **Wyden**. Rolf, we'll spare you any questions unless there's anything you would like to add, as well.

All of you have been very, very helpful. And certainly this hearing, I think, has given us some added new ammunition for a renewed push, both short term and long term, in terms of getting us access to the markets.

I must say that I find it staggering to think that we're looking at the possibility of losing $2 billion per year in export sales by 1994. And the administration, Mr. Kelley, indicated that it was his view that that figure might even be low.

So we are talking literally about thousands and thousands of jobs for Oregonians and the citizens of this country, if we can look at a way to knock down the barriers.

And of course the question becomes, and reasonable people have a difference of opinion on this, what's the best way to do it. I've taken the position that as we try to negotiate smart, as we try to negotiate tough, if we go over the wall to full scale protectionism such as some have advocated in the Congress, we'd do ourselves great harm. We end up costing ourselves more jobs than we would ever possibly save.

So there are a full range of approaches that we need to employ in this area. But frankly, I think we've moved closer toward some solutions by getting this information out on the table. By taking steps to make sure that the administration has more resources to give timber the higher profile that they've said today they wanted to have. And because of your efforts, I think we're a little closer to our mutual and joint goal.

So I thank you all for coming. We're going to certainly want to be in touch with you.

Mr. Anderson, we'd be glad to let you make a final comment?

Mr. ANDERSON. If I may, I would like to make an observation.

The comment was made that the U.S. Trade Representative's Office can function very well with negotiators. I think a point needs to be made, our industry is very concerned because the technical expert who has been working with us for about 2½ years, Don Abelson, has been transferred to another job. The value of having him with a full understanding of our technical problems on the staff at the Trade Representative's Office, just is, I mean, it's basically hard to imagine it.

We are concerned about this because when you get into negotiations, you need someone who has some expertise. And we would be very highly supportive of any kind of program that would provide technical expertise for the wood products industry on the Trade Representative's staff.

Chairman WYDEN. Your point is well taken, and I know our friend, Mr. Kelley, is still here, as well. And we went back and forth a little bit on the effect of who is the U.S. Trade Representative and the relationship between that office and other technical experts.

I think what concerns me is not just that there isn't anyone specific at USTR, and I've heard you and NFPA, but that we're coming up short across the board. It just seems we don't have the range of technical capable people to do these studies, short term and long term to support our efforts. So I'm going to make sure that our Forestry 2000 Task Force gets on this.

This is going to have to be a bipartisan legislative and executive effort, because the executive branch is the one that employs these people. And my feeling is that with a few extra people in key places, which wouldn't have a terrible effect on the deficit, we could make some real progress.

So your point is well taken, and I think Mr. Kelley has heard, as well, about the interest in more people, and we're going to pursue that very quickly and get going on it.

Unless there's anything further that our panel would like to add, we stand adjourned for the day.

[Whereupon, at 12:45 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

APPENDIX

OPENING STATMENT
FIELD HEARING ON PACIFIC RIM TIMBER TRADE ISSUES: TARIFF AND NON-TARIFF BARRIERS

SUBCOMMITTEE ON REGULATION AND BUSINESS OPPORTUNITIES
CHAIRMAN RON WYDEN

AUGUST 15, 1988

The Subcommittee on Regulation and Business Opportunities is convened today to examine the prospects for boosting Northwest forest products sales to the Pacific Rim.

In conjunction with our hearing, the subcommittee is releasing a new report by the Congressional Research Service that states that "high tariffs are still a barrier for many products." And, of perhaps even greater concern, the report concludes that "as tariffs are reduced, non-tariff barriers will become more serious limitations to U.S. wood exports."

These trade barriers will steal the jobs of Oregonians if they are not knocked down. And it is the purpose of this hearing to identify these job-draining restrictions specifically, and to learn what our trade negotiators are doing to remove them.

There are some clear targets for our negotiations:

1. The Peoples Republic of China -- potentially our largest Asian market -- applies a complex import licensing system, and information about how to break that bureaucratic code "is not generally available," according the the CRS report. Foreign currency exchange is strictly regulated, and that's another problem. And internal transportation of wood products by foreign shippers is prohibited, making it very difficult to get Oregon lumber and plywood to the end user in China.

What's the result? Last year, our sales to the PRC actually declined.

2. Korea has a number of non-tariff barriers ranging from an outright ban on pine and larch imports, to the imposition of a bewildering variety of import licencing requirements. Korea's building code generally discourages the use of wood products in residential construction, particularly public housing. Add to these a restriction on ports of entry for certain wood products.

3. Exports to Japan have increased, but the problem of "transparent barriers" -- the non-tariff obstacles -- still remains. Japan's fire and building codes are very restrictive, and it's darn near impossible to get wood products into the Japanese residential building products stream. The so-called "fair competition codes" make it very difficult to introduce new products in the building materials market. And the report states:

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CONGRESSMAN RON WYDEN
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". . . several shipping requirements are substantial barriers, including limits on which ports may be used for logs, port closures on Sundays, restrictions on internal transportation of products, and a shipping cartel which sets westbound ocean freight prices."

In addition to these foreign obstacles to Northwest forest product sales, the Congressional Research Service indicates that "home-made barriers" still exist. CRS is characteristically understated when they conclude that the half dozen federal agencies sharing responsibility for negotiating reduced tariffs and promoting exports have produced a "bewildering conglomeration of federal activities" -- a bureaucratic cacophony that "can be a daunting challenge to prospective exporters."

The timing of this hearing is particularly important. A new round of the MOSS Talks -- Market-oriented, sector specific negotiations involving timber and agriculture products -- begin with the Japanese on August 29th. Bilateral talks with the Koreans begin on timber problems this Fall. In addition, talks through the General Agreement on Tariffs and Trade are set to resume in late December in Montreal, and timber barriers will be on the table.

Given the analysis done be the Congressional Research Service, and the testimony of our witnesses, our trade negotiators must move more quickly to knock down the debilitating trade barriers our forest products industry faces. For future bi-lateral trade negotiations, timber must be a priority, not an after-thought.

The fact is that export markets are becoming increasingly important to the timber industry. The number of domestic housing starts may level off with population trends, and evidence indicates that to maintain jobs in the wood products industry even at their current level, we will need more customers in Asian, European and African markets.

We know we've made progress in the fight to get more Northwest wood products to the Pacific Rim markets, but that progress is being threatened by the barriers that remain -- and a new effort must begin today to remove them.

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CRACKING THE PACIFIC RIM LUMBER MARKET: WYDEN SUBCOMMITTEE INVESTIGATES OPPORTUNITIES AND PROBLEMS FACING NORTHWEST WOOD PRODUCTS INDUSTRY

PANEL WILL FOCUS ON NEW COMMERCE DEPARTMENT STUDY

U.S. wood product sales to the Pacific Rim will reach $3.0 billion this year, up more than 15 percent from 1987, according to a government report to be issued at an upcoming congressional hearing.

Most of those products were harvested and milled in the Pacific Northwest, according to the survey, which is ideally positioned to meet the growing needs of industrialized nations including Japan, South Korea and Taiwan, as well as the demand in less-developed countries of the western Pacific Rim, such as China.

But a new Congressional Research Service report done at Rep. Wyden's request to be unveiled at the August 15 hearing in Portland, Oregon, argues that Northwest forest manufacturers also are threatened by a web of tariff and non-tariff barriers which severely limit access to important customers. As U.S. domestic housing starts continue to fall off, and the need to establish and expand overseas markets grows; these barriers have become a key problem facing the Pacific Northwest timber industry.

Rep. Ron Wyden's Small Business Subcommittee on Regulation and Business Opportunities will hold a hearing on Monday, August 15, to identify the toughest of these barriers, and to question U.S. trade negotiators on their strategy for overcoming these problems. The hearing will begin at 10 a.m., in the Council Chambers of Portland City Hall, 1220 S.W. Fifth Avenue.

The CRS survey identifies the scope and severity of various tariff and non-tariff obstacles. Wyden also will question government witnesses on a comprehensive analysis and action plan being drafted by the Commerce Department concerning these problems.

"Strengthening foreign sales of Northwest wood products has got to be a top priority for our government," Rep. Wyden said. "We've knocked down some of the tariff barriers. But non-tariff obstacles like arbitrary building code restrictions are just as costly to our industry."

Witnesses at Monday's hearing will include:

o Michael T. Kelley, Deputy Assistant Secretary of Commerce for Basic Industries. Kelley is directing the Pac-Rim timber trade barriers study.

o Representatives of the principal timber products associations including the National Forest Products Association, the American Plywood Association, the Western Wood Products Association, and the Northwest Independent Forest Manufacturers Association.

o Richard Reiten, director of the Oregon State Economic Development Department, and Frank Martin, general manager of the Port of Coos Bay, to discuss state and local government timber marketing initiatives.

August 15, 1988

GOOD MORNING, LADIES & GENTLEMEN. I'M RICHARD REITEN, DIRECTOR OF THE OREGON ECONOMIC DEVELOPMENT DEPARTMENT. I'D LIKE TO THANK YOU, CONGRESSMAN WYDEN AND ALL THE MEMBERS OF THE SUBCOMMITTEE, FOR GIVING THE STATE OF OREGON THE OPPORTUNITY TO PARTICIPATE IN THESE HEARINGS ON A MATTER THAT IS SO VITALLY IMPORTANT TO OUR ECONOMY.

THESE HEARINGS COME AT A TIME OF GREAT OPPORTUNITY FOR THE U.S. WOOD PRODUCTS INDUSTRY. LOOKING OVERSEAS TO THE PACIFIC RIM NATIONS, WE SEE THE GROSS NATIONAL PRODUCT IN THE ASIAN NATIONS, PARTICULARLY IN THE "FIVE TIGERS" -- WHICH INCLUDE TAIWAN, KOREA AND JAPAN -- GROWING AT A RATE BETWEEN 8% AND 13% PER YEAR IN GNP.

IN ADDITION, THE DEMOCRATIZATION OF KOREA -- TOGETHER WITH THE INTRODUCTION OF SOME FREE MARKET AND DEMOCRATIC PRINCIPLES IN CHINA -- ARE CREATING A SIGNIFICANT DEMAND FOR PAPER PACKAGING, PULP AND WOOD PRODUCTS. IN KOREA ALONE THE INTRODUCTION OF DEMOCRACY IN DECEMBER OF 1987 CREATED 100 NEW NEWSPAPERS IN THE FIRST FOUR MONTHS OF 1988.

THE GENERAL INCREASE IN THE INCOME AND AFFLUENCE IN THIS PART OF THE WORLD IS ALSO LEADING TO A GREATER DEMAND FOR HOUSING, ESPECIALLY OF WESTERNIZED STYLE. THE EXPANDING POPULATION OF THESE COUNTRIES IS CREATING OTHER UNANSWERED NEEDS. JAPAN HAS A POPULATION OF 120 MILLION AND INDONESIA HAS A POPULATION OF 150 MILLION TO ILLUSTRATE THE SIZE OF JUST THOSE TWO COUNTRIES.

COUPLED WITH THIS ECONOMIC GROWTH HAS BEEN A GENERAL DECLINE IN THE AVAILABILITY OF TIMBER AND WOOD PRODUCTS FROM THE TRADITIONAL SOURCES WITHIN THE ASIAN NATIONS. IN PARTICULAR, THE TIMBER STANDS IN INDONESIA, MALAYSIA AND THE PHILIPPINES HAVE BEEN SERIOUSLY DEPLETED. THEREFORE, THE AVAILABILITY OF LOGS AND OTHER WOOD PRODUCTS TO SUPPLY THE GROWING DEMAND IN THE ASIAN COUNTRIES FALLS CONSIDERABLY SHORT OF THEIR NEEDS. ONE INTERESTING NOTE IS THAT BY POLICY INDONESIA, MALAYSIA AND THE PHILIPPINES HAVE DISCONTINUED THE WHOLESALE EXPORT OF LOGS, AND BY POLICY HAVE MOVED THE MANUFACTURING OF LUMBER AND PLYWOOD FROM KOREA, TAIWAN AND JAPAN INTO THEIR OWN NATIONS IN ORDER TO CONVERT THE RESOURCE THERE. IN ALL INSTANCES THAT I AM AWARE OF, THE OTHER NATIONS IN ASIA ARE BUYING THE FINISHED PRODUCTS AS OPPOSED TO THE LOGS WHICH WOULD ENABLE THEM TO DO THE PRE-FINISHING, MILLING AND OTHER VALUE-ADDED ACTIVITIES. TODAY, THERE ARE JUST A FEW BASIC SAWMILLS AND PLYWOOD PLANTS LEFT THAT ARE DEPENDENT UPON HARDWOOD LOGS FROM SOUTHEAST ASIA.

SO SUMMARIZING THE SITUATION BEFORE US TODAY, THE PACIFIC RIM COUNTRIES ARE ENTERING A PERIOD OF HIGH DEMAND WHICH THE UNITED STATES -- AND PARTICULARLY WEST COAST STATES SUCH AS OREGON -- CAN HELP SUPPLY. HOWEVER, WE MUST BE CERTAIN TO DO IT A MANNER THAT IS MUTUALLY BENEFICIAL, AND THAT IS THE FUNDAMENTAL BASIS OF ANY VALID RELATIONSHIP. IN SEEKING TO TAKE ADVANTAGE OF THIS DEMAND, WE MUST GUARD AGAINST FOREIGN GOVERNMENT TRADE RESTRICTIONS WHICH WOULD IN ESSENCE TURN OREGON INTO A THIRD WORLD COUNTRY THAT EXPORTS ITS NATURAL RESOURCES ONLY TO REPURCHASE THEM LATER IN FINISHED FORM.

WHAT ARE SOME OF THE BARRIERS TO U.S. AND OREGON FOREST PRODUCTS THAT HINDER US FROM PURSUING AND CAPITALIZING ON THESE OPPORTUNITIES?

THE EAST-WEST INSTITUTE IN HONOLULU HAS IDENTIFIED LANGUAGE AND CULTURAL BARRIERS AS THE MAJOR BUSINESS IMPEDIMENTS FOR THE U.S. IN ALL ITS PRODUCTS, AND THIS CERTAINLY INCLUDES WOOD PRODUCTS AS WELL. THIS SHOULDN'T COME AS A SURPRISE. IF WE INTEND TO DO BUSINESS ON PACIFIC RIM TURF, WE'D DO WELL TO LEARN THEIR TERMS. OUR EXPERIENCE DURING OVERSEAS TRADE MISSIONS HAS BEEN THAT THIS SIMPLE COURTESY PAYS IMMEASURABLE DIVIDENDS.

SECONDLY, THERE ARE TARIFF AND NON-TARIFF BARRIERS IN MOST OF THE ASIAN NATIONS, THOUGH LESS SO IN THE SOUTH PACIFIC WHERE TRADITIONAL DISTRIBUTION AND USAGE IS SIMILAR TO THAT OF THE U.S., SPECIFICALLY IN NEW ZEALAND AND AUSTRALIA.

IN THE ASIAN NATIONS, HOWEVER, THERE ARE CONTINUING PROBLEMS THAT MAKE IT DIFFICULT FOR WOOD PRODUCTS FROM OREGON AND THE U.S. TO PENETRATE THOSE MARKETS. THE TARIFF BARRIERS RANGE FROM BETWEEN 10-50% ON FINISHED PRODUCTS AND 0-15% ON LOGS AND CHIPS AND OTHER LOW VALUE ADDED PRODUCTS. IN THIS WAY, THEY ENCOURAGE THE IN-BOUND TRAFFIC OF RAW MATERIALS AND DISCOURAGE THE IMPORTATION OF HIGH VALUE-ADDED MATERIALS. TARIFFS, WHILE A COMPLEX ISSUE, ARE AT LEAST KNOWN ENTITIES. IT IS THE NON-TARIFF BARRIERS WHICH ARE LESS TRANSPARENT AND MORE DIFFICULT TO ENSURE PARITY AND RECIPROCITY IN OUR TRADING RELATIONSHIPS.

FOR EXAMPLE, THERE ARE BUILDING CODE DIFFERENCES IN MANY OF THE COUNTRIES WHERE THE SIZES AND REQUIREMENTS DON'T CORRELATE WITH THOSE OF U.S. PRODUCTS CURRENTLY BEING MANUFACTURED, WITH U.S. STANDARDS CALLING FOR INCHES AND FEET WHILE ASIAN SIZES ARE METRIC. THESE DIFFERENCES CAN BE USED TO DISCRIMINATE AGAINST U.S. PRODUCTS BUT CAN BE OVERCOME OVER TIME BY ADAPTATION. WHAT IS MORE DAMAGING IS THE FACT THAT GOVERNMENTS SUCH AS KOREA HAVE SET STANDARDS WHICH DISCOURAGE OR PROHIBIT THE USE OF WOOD AS OPPOSED TO OTHER NON-COMBUSTIBLE MATERIALS. OTHER OUT-MODED BUILDING CODES FAIL TO RECOGNIZE NEW U.S.WOOD PRODUCTS WITH STRENGTH COMPARABLE TO STEEL. THIS PREVENTS THEM FROM BEING ACCEPTED AS VIABLE BUILDING MATERIALS.

ALSO, THE DISTRIBUTIONS SYSTEMS IN MANY OF THE ASIAN COUNTRIES MAKE IT DIFFICULT FOR MANY U.S. PRODUCERS TO ACCESS THEM ON A DIRECT BASIS. THERE ARE SHIPPING AND HANDLING BARRIERS WHERE U.S. COMPANIES ARE NOT ALLOWED TO HAVE AGENTS, OFFICES OR TRANSPORTATION OPERATIONS IN MOST OF THE ASIAN NATIONS. JAPAN, FOR EXAMPLE, PROHIBITS FOREIGN COUNTRIES FROM TRUCKING THEIR OWN GOODS WHILE WE ALLOW THEM TO PERFORM THE VERY SAME FUNCTION IN OUR COUNTRY.

FINALLY, MANY PACIFIC RIM GOVERNMENT CONTRACTS SET DELIVERY TIMELINES WHICH LIMIT THE U.S.' ABILITY TO COMPETE BECAUSE WE ARE PROHIBITED FROM WAREHOUSING OUR PRODUCTS IN THEIR COUNTRY.

THESE ARE JUST A FEW EXAMPLES OF THE NON-TARIFF BARRIERS WE FACE AS A STATE AND AS A NATION.

HOW DO THESE CIRCUMSTANCE TRANSLATE TO OUR SITUATION IN OREGON?

BY OUR BEST AND MOST CURRENT INFORMATION, 7% OF THE $2.6 TO $2.8 BILLION DOLLAR TIMBER INDUSTRY IN OUR STATE IS EXPORTED. ALSO, THERE IS AN ADDITIONAL 7% OF RAW LOGS EXPORTED EQUALING THEN A 14% TOTAL EXPORT PERCENTAGE OF THE STATE'S LARGEST INDUSTRY. MORE SPECIFIC STATISTICS I'M SURE ARE AVAILABLE FROM THE WESTERN WOOD PRODUCTS ASSOCIATION AND THE NATIONAL FOREST PRODUCTS ASSOCIATION.

THE MANUFACTURING SECTOR OF MOST REGIONS OF OREGON IS STILL DRIVEN BY WOOD PRODUCTS. THE LATEST FIGURE WE HAVE SHOWS THAT IN EXCESS OF 60% OF ALL MANUFACTURING SECTORS OF OREGON, WITH THE EXCEPTION OF THE PORTLAND METRO AREA, ARE DIRECTLY TIED TO WOOD PRODUCTS PRODUCTION. INDEED, IT IS OUR ESTIMATE THAT SOME 70-80 COMMUNITIES DEPEND PRIMARILY ON ONE WOOD PRODUCTS PRODUCTION FACILITY FOR THEIR ECONOMIC STABILITY.

IT SHOULD ALSO BE NOTED THAT 50% OF THE LAND IN OREGON IS OWNED BY THE FEDERAL GOVERNMENT AND WE ARE THE STATE WITH THE LARGEST TOTAL TIMBER RESERVES, PUBLIC AND PRIVATE, IN THE UNITED STATES.

THE ELEMENT THAT BRINGS ALL THESE FACTORS TO BEAR IS OUR LOCATION ON THE PACIFIC RIM WITH EXCELLENT SHIPPING FACILITIES TO REACH THAT PART OF THE WORLD. WE COULDN'T BE IN A BETTER POSITION TO SERVICE THESE GROWING ECONOMIES AND THEIR NEEDS WHILE SIMULTANEOUSLY HELPING TO SUPPORT OUR OWN INDUSTRY.

MANY OF THE MAJOR COMPANIES IN THE PACIFIC NORTHWEST HAVE ESTABLISHED REASONABLY GOOD CHANNELS FOR THE EXPORTATION OF LOGS AND SOME FINISHED PRODUCTS, WHILE THE MEDIUM AND SMALLER COMPANIES DO NOT KNOW HOW TO ACCESS THESE MARKETS AND/OR HOW TO PRODUCE THE PRODUCTS THAT WILL MEET THE CODES AND BUILDING PRACTICES OF THE VARIOUS COUNTRIES. IT IS IN THIS AREA THAT PERHAPS YOU AND I CAN PROVIDE THE GREATEST ASSISTANCE OF ALL.

WE SEE THE PRIVATE SECTOR AS THE PRIMARY DRIVER IN TAKING THE INITIATIVE TO REACH THE MARKETS OF THE PACIFIC RIM. AT THE SAME TIME, WE THINK THAT BOTH FEDERAL AND STATE GOVERNMENT SHOULD TAKE AN INCREASED ROLE IN ACTIVELY SETTING UP THE STRUCTURES AND CONDUITS THAT WOULD GIVE COMPANIES -- PARTICULARLY THE MEDIUM TO SMALL ONES -- AN OPPORTUNITY TO REACH OUT TO THE PACIFIC RIM MARKETS THROUGH THEIR GOVERNMENT. THIS GOES BACK TO MY EARLIER COMMENT ABOUT THEIR TURF, THEIR TERMS. PACIFIC RIM GOVERNMENTS EXPECTS OUR GOVERNMENT TO BE THE ONE WHO SPONSORS OUR COMPANIES AND INTRODUCES THEM TO THE RIGHT GOVERNMENT OFFICIALS, INDUSTRY OFFICIALS AND CHANNELS OF DISTRIBUTION IN THE ASIAN COUNTRIES.

IT APPEARS THAT THE LARGER COMPANIES, SUCH AS WEYERHAEUSER, LOUISIANA PACIFIC, BOHEMIA AND OTHERS, HAVE ESTABLISHED GOOD PENETRATION OF THOSE MARKETS AND HAVE BEEN WORKING AT THIS INTERNATIONAL MARKETING PROGRAM FOR A NUMBER OF YEARS. NONE-THE-LESS, WE KNOW OF SEVERAL INSTANCES THAT HAVE BENEFITTED EVEN THE LARGER COMPANIES BY BEING ASSOCIATED WITH THEIR GOVERNMENT.

ONE CASE IN POINT IS BOHEMIA'S PARTICIPATION IN A STATE SPONSORED MISSION TO KOREA, TAIWAN AND JAPAN IN OCTOBER 1988. AS A RESULT, BOHEMIA HAS SUBSTANTIALLY INCREASED ITS BUSINESS TO THAT PART OF THE WORLD, AND HAS IN FACT BUILT ONE NEW LAMINATED BEAM PLANT AND IS PLANNING ANOTHER JUST TO SERVICE THE MARKET IN JAPAN. ON THE PARTICULAR TRIP MENTIONED, 105 PEOPLE AND OVER 40 COMPANIES DISPLAYED THEIR PRODUCTS IN TWO MAJOR TRADE SHOWS, ONE IN TAIWAN AND KOREA. THE BOTTOM LINE NEW BUSINESS CREATED ON THAT TRIP WAS $15 MILLION BY COMPANIES THAT HAD NEVER BEEN INVOLVED IN SELLING THEIR PRODUCTS IN ASIA PRIOR TO THAT TIME.

WHAT KIND OF STRUCTURE ARE WE DEVELOPING TO ENHANCE THIS ACCESS?

OREGON HAS ESTABLISHED THE OREGON TRADE AND MARKETING CENTER WHICH BRINGS TOGETHER ALL THE STATE AGENCIES INTO ONE LOCATION, ALONG WITH U.S., FOREIGN AND COMMERCIAL SERVICE AND OTHER ALLIED COMMERCIAL BUSINESSES AND SERVICES. IT WILL CREATE A CRITICAL MASS FOR OREGON INDUSTRY TO ACCESS TO SELL INTO PACIFIC RIM MARKETS. WE HAVE ALSO ESTABLISHED THREE OVERSEAS OFFICES IN TAIWAN, KOREA AND JAPAN AND MADE IMPORTANT CONTACTS IN MANY OF THE OTHER NATIONS. THE OVERSEAS OFFICES AND THE OREGON TRADE AND MARKETING CENTER IN PORTLAND ARE CONNECTED TO THE OREGON MARKETPLACE BY 22 LOCAL BUSINESS DEVELOPMENT CENTERS THAT -- BEGINNING NEXT YEAR -- WILL BE INVOLVED IN AN EDUCATIONAL AND ASSISTANCE PROGRAM WHICH BRINGS OPPORTUNITIES AND LINKAGE TO THE ASIAN MARKETS TO THE MANY REGIONS OF OREGON.

THIS SAME PROCESS ALSO CAN BE REVERSED BY CONNECTING THROUGH OUR OVERSEAS OFFICES INTO THE JAPANESE, KOREAN AND TAIWAN IMPORT PROGRAMS THAT ARE BEING PUT IN PLACE TO ENCOURAGE THE IMPORTATION OF AMERICAN PRODUCTS TO ALLEVIATE THE TRADE IMBALANCE PROBLEM THEY NOW HAVE.

THEREFORE, THE COMBINATION OF OVERSEAS OFFICES, THE OREGON TRADE AND MARKETING CENTER AND THE OREGON SMALL BUSINESS DEVELOPMENT CENTERS ALL WORK TOGETHER WITH THE COMMON GOAL OF CREATING OPPORTUNITIES FOR INTERNATIONAL TRADE FOR OREGON BUSINESS, AND THIS BASIC STRUCTURE AND PLAN IS GEARED TO GO INTO FULL IMPLEMENTION IN 1989.

THE STATE GOVERNMENT ALSO INTENDS TO ENCOURAGE AND SPONSOR TRADE MISSIONS AND TRADE SHOWS THROUGH DEPARTMENT OF FORESTRY, AGRICULTURE AND INTERNATIONAL TRADE DIVISION OF THE ECONOMIC DEVELOPMENT DEPARTMENT TO ASSIST BUSINESSES IN DISPLAYING THEIR PRODUCTS ON A REGULAR BASIS IN THE ASIAN MARKET.

TO CONCLUDE, THE OPPORTUNITIES ARE SIGNIFICANT IN THE PACIFIC RIM, AND OREGON AND THE UNITED STATES HAS THE RESOURCE BASE IN WOOD PRODUCTS MANUFACTURING CAPABILITIES TO SIGNIFICANTLY INCREASE THE AMOUNT OF TRADE WITH THOSE NATIONS.

IN ORDER TO DO THAT, HOWEVER, WE MUST BUILD ON THE EXISTING BUSINESS WE HAVE AND BRING TO OUR WOOD PRODUCTS COMPANIES AN UNDERSTANDING OF THE LANGUAGE AND CULTURAL REQUIREMENTS AND SKILLS NEEDED TO DO BUSINESS IN THE PACIFIC RIM.

FURTHERMORE, THIS WHOLE PROCESS MUST BE FACILITATED BY THE FEDERAL GOVERNMENT, STATE GOVERNMENTS AND INTERNATIONAL TRADE ASSOCIATIONS TO ASSIST AN INDUSTRY THAT REMAINS ALMOST EXCLUSIVELY FOCUSED ON THE U.S. DOMESTIC ECONOMY AND THE WORLDS LARGEST HOUSING AND REMODELING MARKETS THAT EXIST HERE.

THE FINAL POINT I WOULD LIKE TO MAKE IS THAT WE MUST CAREFULLY ASSESS OUR POLICY TOWARDS SHIPPING UNPROCESSED LOGS FROM FEDERAL AND STATE LANDS TO COUNTRIES WHO WOULD DO THE ADDED-VALUE AND PROCESSING IN THEIR DOMESTIC ECONOMIES, THUS REAPING FOR THEMSELVES THE JOB CREATION BENEFITS THAT OCCUR IN THE CONVERSION PROCESS. SIMILARLY, WE MUST PROTECT THE RIGHT OF PRIVATE COMPANIES TO EXPORT THEIR OWN TIMBER IF THEY CHOOSE TO MAKE THAT DECISION.

ONE THING IS CLEAR - THE MARKETS OF THE PACIFIC RIM ARE GROWING AND WILL CONTINUE TO BE A MAJOR OPPORTUNITY BETWEEN NOW AND THE YEAR 2000 AND BEYOND. ALL OUR PRODUCTS WILL BE IN DEMAND, INCLUDING PULP AND PAPER PACKAGING, RAW LOGS, AS WELL AS MOST OF THE FINISHED PRODUCTS WE NOW PRODUCE. CONVERSELY, WE ARE IN THE POSITION TO DEMAND EQUAL ACCESS AND A LEVEL PLAYING FIELD. WE ARE CAPABLE OF OPENING NEW DOORS WITH AN OPEN MIND. WE ARE CAPABLE -- IF WE ARE WILLING -- OF LEARNING THE CULTURAL NUANCES OF THE PACIFIC RIM NATIONS, AS WELL AS ADAPTING TO THE DIMENSIONAL AND QUALITY STANDARDS OF THESE MARKETS. COVERSELY, WE ARE CAPABLE OF INTRODUCING OUR PRODUCTS, OUR METHODS AND OUR INNOVATIONS TO THEM.

CONGRESSMAN WYDEN, THE OREGON ECONOMIC DEVELOPMENT DEPARTMENT STANDS READY TO ASSIST YOU AND THIS COMMITTEE IN THIS UNDERTAKING, AND I THANK YOU AGAIN FOR THE PRIVILEDGE OF SPEAKING HERE THIS MORNING.

STATEMENT FOR THE RECORD

BY

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VICE PRESIDENT
INTERNATIONAL TRADE COUNCIL

ON BEHALF OF

THE NATIONAL FOREST PRODUCTS ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON REGULATION AND BUSINESS OPPORTUNITIES
COMMITTEE ON SMALL BUSINESS

OF THE

UNITED STATES HOUSE OF REPRESENTATIVES

AUGUST 15, 1988

INTRODUCTION AND OVERVIEW

Good morning Mr. Chairman. My name is Steve Lovett. I am Vice President for International Trade for the National Forest Products Association. NFPA is very much involved in trade policy issues in the Pacific Rim. We believe that trade barrier reduction is essential to realize the fruits of our industry's market development efforts and appreciate this opportunity to make our views known.

The National Forest Products Association is a national industry trade association that represents the interests and views of owners and managers of forest lands, manufacturers of forest products and affiliated regional and product associations. The NFPA membership includes over 750 direct and associated company members, and over 65 association and allied members. Many members of NFPA are dependent upon solid wood export markets in the Pacific Rim for their livlihood.

Mr. Chairman, the wood products industry is the oldest manufacturing industry in the United States. Today, over 700,000 people are directly employed in the manufacture of solid wood products. Last year, the industry had sales estimated at $70 billion. When considered with pulp and paper, forest-based industries are the most important manufacturing industries in a dozen states, and among the major employers in another dozen. Exports of solid wood products account for 7% of production, twice what they were 10 years ago. The record shows that our industry is highly competitive and can meet the challenge of the 1990s when export markets worldwide are expected to provide the greatest growth opportunities for U.S. wood products. The U.S. industry is:

- the second largest producer of softwood products, after the Soviet Union (Canada is third);
- the fifth largest exporter of softwood lumber, behind Canada, Soviet Union, Sweden, and Finland;
- the largest producer of softwood plywood, with Canada a distant second;
- the largest exporter of softwood plywood;
- the largest producer of commercial hardwood roundwood;
- the second largest producer of hardwood lumber behind India;
- the third largest hardwood lumber exporter, behind Malaysia and Indonesia.

Real labor costs are lower in the United States when compared with other industrialized countries. This development stems from the devaluation of the U.S. dollar, and from improvements in manufacturing productivity since the early 1980's.

The sawmilling industry has an enviable record with respect to productivity improvement. According to the Bureau of Labor Statistics, manufacturing productivity, in terms of output per employee hour, increased 11 percent in 1986, well over three times the national average for all manufacturing activity.

To realize our industry's full trade potential will require the successful efforts of our government to eliminate trade barriers in our overseas markets. My role today in this panel is to speak to this issue:

- to describe the research by the National Forest Products Association on tariff and non-tariff barriers to wood products sales in the Pacific Rim;
- to describe the tariff and non-tariff reductions sought by the industry in that region;
- to address the merits of U.S. trade negotiations in recent years to eliminating barriers to solid wood exports;
- to estimate improvements for U.S. exporters in these markets;
- to recommend ways in which our government can assist our industry in expanding Pacific Rim markets.

I. ECONOMIC INDICATORS IN THE PACIFIC RIM PRESAGE SUCCESS FOR U.S. GOVERNMENT/INDUSTRY MARKET DEVELOPMENT EFFORTS.

USDA statistics just released show that the United States has become a net exporter of wood products, registering a $9 million favorable trade balance for the first five months of 1988, with exports of $2.162 billion against imports of $2.153 billion. By comparison, in 1987 for the same period, exports were $1.464 billion against imports of $2.196 billion. U.S. imports have remained fairly constant while exports have surged ahead by 48 percent over 1987. Big gains were registered in Japan, up 51% with $901 million against $598 million in 1987. China continues strong, up 209 percent, with $207 million against $67 million in 1987. At this rate, the industry could surpass the $5 billion mark by the end of the year.

Although exports are up, the importance of the potential in Pacific Rim markets can not be underestimated, especially in view of the markedly slower growth expected in domestic markets during the 1990's.

This hearing focuses on some of our industry's most important markets. Japan is without question our largest export market, $1.8 billion in 1987, 45 percent of all export sales. Canada was next in '87 with $471 million, followed by Korea with $190 million, and China with $168 million. West Germany, the U.K., Italy, Taiwan, Mexico, and Australia make up the balance of our industry's top ten export markets. Three out of the top five, and five of the top ten export markets are in the Pacific Rim, which combined account for 70% of sales to our top ten export markets. Clearly the markets of the Pacific Rim are extremely important to our industry; Oregon and the Pacific Northwest are strategically positioned to take maximum advantage of these markets.

Of the $3.96 billion in total exports last year, softwood products made up 81 percent, while hardwood products supplied the remaining 19 percent. Softwood logs comprised 39 percent of exports, followed by softwood lumber at 21 percent, hardwood lumber at 12 percent, wood chips at 5 percent, and softwood plywood at 5 percent. The balance in the "other" category includes hardwood logs, medium density fiberboard, other panel products, moulding and millwork, and so forth.

Strong economic growth in the Pacific Rim is projected over the next five years. Based on the following indicators we expect continued growth for export of solid wood products to the region:

- a $2.4 billion export market for wood products in 1987
- per capita consumption of wood 1/10 of U.S.
- severe shortage of domestic timber supplies
- critical housing shortages
- projected GNP growth averaging 3-4 times that of western nations

On the other hand, we believe that the Pacific Rim could offer a much larger potential for increased sales of U.S. solid wood products; if these markets were free of trade barriers, annual sales could increase dramatically, rising an additional $2 billion per year by 1994.

II. PROGRAMS UNDERTAKEN BY THE WOOD PRODUCTS INDUSTRY TO INCREASE EXPORTS

I would like to take a few minutes to put the problematic issue of trade barriers into the perspective of the international programs conducted by our industry. It is only by looking at trade barriers in this context that their importance to our industry can be fully understood. Industry export programs are grouped under a three part export strategy comprised of market development, trade policy and export financing.

Market development is the first element in the strategy. Overseas markets in different stages of development are beginning to consider U.S. solid wood products for the first time: for example, India, Korea, China, Iraq, Algeria, Jordan, and Saudi-Arabia. Because these countries are unfamiliar with U.S. products, we must educate buyers, specifiers and endusers about our products, how they are used, how our marketing system works, and about the stability of our long term supply capability. In developed countries continuing promotion and trade servicing activities are necessary to maintain market share for U.S. products.

To answer these needs, NFPA in 1979 teamed up with the USDA's Foreign Agricultural Service in a market development program. When this program began, FAS Agricultural Trade Officers in more than 30 countries began to include forest products as one of their areas of responsibility. These offices help exporters understand the market, meet buyers, and get a feel for how to do business in a country. They also prepare market intelligence reports once a year which are compiled and published by NFPA. The market reports describe foreign wood products industries and their end use markets, volume of supply and consumption levels, distribution system, import volumes, competitors, and so forth.

The key element in the NFPA/FAS partnership is the Market Development Plan, administered by NFPA, and undertaken by the major product associations: the American Plywood Association, the Southern Forest Products Association, and the Western Wood Products Association. The Market Development Plan funds a wide variety of overseas activities including offices, publications in foreign languages, trade missions, trade fairs, demonstration projects, and seminars.

The Market Development Program was initially funded by FAS at $6,500. Today the program is supported by $2.8 million in government funds which, when matched by industry contributions, totals $5.7 million. With activities in about about 30 countries, Europe accounts for 57% of the program, the Pacific Rim 29%, South America and the Caribbean 12%, while 2% goes to the Mid-East. The program is roughly divided between softwood panels and lumber, with about 20 percent for hardwood products.

The Market Development Program has been one of the keys that has reversed the decline in exports which fell to $2.7 billion in 1984 and 1985. During this period our industry/government began to promote wood products overseas. As the Market Development Program gained momentum, export recovery took place world wide. Wherever we conducted activities we got results.

In addition to Market Development, FAS also sponsors Targeted Export Assistance (TEA), authorized by the Farm Act of 1985 to promote U.S agricultural products overseas. The Summit House, the first TEA project, was conducted by the American Plywood Association, and has been very effective in promoting U.S. products in Japan as well as contributing to the reduction of trade barriers. Including the Summit House, the wood products industry has received $5,280,000 funding under this program for projects in Europe, Latin America, and Asia.

The second prong of the strategy is trade policy. The U.S. forest industry faces enormous barriers in markets around the world, yet wood products exporters of other countries confront virtually no obstacles to selling their products in the United States. Tariffs, subsidies, restrictive building codes, import quotas, licensing, and many other barriers obstruct sales of U.S. products overseas. Eliminating these barriers is probably the most important responsibility area that NFPA has in the international arena: expanding markets by reducing ways in which foreign governments prevent our products from entering their markets.

To assist our government in negotiating the reduction of trade barriers for wood products, NFPA has accomplished two important tasks so far this year: first, an industry wide policy on trade negotiations lays out our objectives (Attachment I); and second, a data bank lists tariffs on wood products in 30 countries, and describes the non-tariff barriers operating in those markets (Attachment II).

I would like to stress that the data bank is a compilation of available information from the industry, Departments of Commerce and Agriculture, and our embassies overseas. As information is difficult to obtain and often unavailable, the data bank is still far from complete, demonstrating how little evidence U.S. negotiators have to win market access for our industry, and how much further we need to go to build a solid basis for trade negotiations.

We have made an effort to compile the data bank this year because the Multilateral Trade Negotiations under the auspices of the General Agreement of Tariffs and Trade (GATT) are current, and our government is also placing increasing emphasis on bilateral negotiations. Trade negotiations should start with the formal process of industry input which equips our government to negotiate our concerns. But it is only support from Congress that ensures our concerns make it to the negotiating table.

The third prong of NFPA's export strategy is export financing. USDA's Commodity Credit Corporation provides credit guarantees to a group of selected countries, allowing U.S. exporters to receive payment upon shipment, while the buyer gets financing for one or two years.

The export financing program has been very successful in opening markets in a few countries that would not normally purchase U.S. products. For example in Iraq, in 1987 export financing triggered sales of $20 million; additional financing in 1988 has brought exports to $50 million so far this year.

Total financing available for all agricultural products is $5.6 billion. At the present time $122 million of this is used for solid wood products. Our industry has strongly recommended that this amount be increased by making wood products eligible for the full range of USDA export financing, but such action has been blocked in the interagency process. Full access for all of USDA's export financing program could mean some $500 to $700 million in financing for wood products.

In this regard I would like to thank you, Mr. Chairman, on behalf of the forest products industry, for your quick response in sending a letter signed by you and the other co-chairmen of the Forestry 2000 Task Force to the Office of Management and Budget on the issue of utilization of P.L. 480 for wood and processed wood products. As a result of your efforts the interagency group agreed that, on a case by case basis, neither wood products, nor any agriculture commodity, should be excluded from participating in the P.L. 480 program. While it remains to be seen if the next country applying for wood products under P.L. 480 will be granted its request, this is definately a step in the right direction.

III. WHAT PREVENTS OUR INDUSTRY FROM TAPPING THE HUGE POTENTIAL MARKETS IN THE PACIFIC RIM?

The primary obstacle which prevents our industry from expanding markets for solid wood products in the Pacific Rim is trade barriers. However, apart from policies of foreign governments to raise non-transparent trade barriers in order to maintain favorable balances of trade, several obstacles here at home prevent our industry from gaining its rightful competitive place in these foreign markets.

We have gone to great lengths to compile a data bank of tariff and non-tariff barriers which keep us out of foreign markets. As I have said, this exercise has, to the greatest extent possible, tapped the resources of the U.S. Department of Commerce, the U.S. Department of Agriculture, U.S. Commercial and Agricultural officers located in our embassies overseas, and finally the experience of our industry in foreign markets. Despite this effort, data bank information remains unsubstantiated, incomplete, and anecdotal. Our industry can not expect our government to go to the negotiating table with this kind of information.

Although many of the non-tariff barriers that prevent expansion of Pacific Rim markets are understood, to reduce and eliminate these barriers we need three things: first, reliable documented evidence of trade barriers that we know exist must be gathered; second, a strategy based on that information and strongly supported by our government must be developed to remove these barriers; and third, using that information and strategy as a foundation sufficient political support from Congress must be gained to ensure the success of this effort.

May I invite your attention for a moment to some of the barriers we face, and what U.S. negotiators have done about them.

JAPAN

Japanese government and private economists predict that the country's economy will continue its current expansion at a rate of 5 percent for the near term, and possibly for years beyond. Japan's Gross National Product (GNP) for the last fiscal year was up by 4.9 percent.

This economic activity will create new opportunities in the Japanese housing market, and U.S. forest products exporters can expect opportunities to further expand trade with Japan.

Last month the Japanese Ministry of Construction announced a ten-year program to begin making farm land within the major cities available for housing. In Tokyo alone, this could mean 150,000 housing units. Wood housing starts for the first quarter of 1988 are up almost 10 percent over first quarter 1987 figures. On an annual basis 1987 saw a 20 percent increase over 1986.

Demand for affordable housing has been incredible. Residential land prices shot up 93 percent in 1987. A 1,300 sq. ft. parcel of residential land on the edge of Tokyo was sold and resold during a one year period, with the price increasing from $1.8 million to $10.7 million. A 200-sq. ft. apartment sells for more than $500,000, 10 times the yearly income of the average salaried worker, if it is within six miles of Tokyo's center.

Japan's greater-than-expected economic expansion is the result of increases in personal consumption, running at a 4.8 percent annual rate, and corporate investment in new plants and equipment, running at a 12.6 percent annual rate. Many experts agree that this is just the beginning of higher spending by both groups.

International and Japanese observers are urging Japanese Prime Minister Noboru Takeshita to increase his efforts to further open and deregulate the Japanese market. Otherwise, they fear the country's trading partners may themselves begin enacting protectionist measures.

To capitalize on potential gains in the Japanese market, the U.S. government engaged in Market Oriented Sector Selective (MOSS) talks with Japan in 1985. The success of these talks encouraged our industry to ask for a renewal of the talks, as provided for in the January 10, 1986 agreement.

The earlier MOSS talks produced some progress toward the elimination of barriers to trade in wood products. As a result of the successful efforts by the U.S. government to bring tariffs down, trade in processed products picked up from 22% of total exports during the 1984-1985 period to 28% during 1986-1987.

Overall wood products sales to Japan were up 41% in 1987, with softwood lumber and plywood sales up 38% and 33% respectively. These efforts are beginning to show results, but our industry continues to face trade barriers which prevent us from taking advantage of further opportunities.

We believe that the commitment of the U.S. and Japan to the MOSS objective of the identification and elimination of barriers to trade in forest products remains valid and deserves to be vigorously pursued. The January, 1986 report noted that, "Further progress should be achieved through continued discussion in the MOSS framework."

Although in principle the Japanese have agreed to a continuation of these talks at the insistence of USDA's Foreign Agricultural Service, a renewal of the MOSS talks has been stalled for nearly a year on both sides of the Pacific, leaving excellent opportunity to expand markets untapped. Some progress came at the April 1988 U.S. Japan Economic Subcabinet Meetings in Tokyo when the United States called for resumption of the MOSS talks, and the Japanese responded affirmatively. To date, however, the first meeting has not occured. Addition support from Congress could help FAS gain the leverage it needs to ensure the success of these talks.

Our objectives in the continuation of the MOSS talks will concentrate on: first, the elimination of remaining tariff barriers to softwood plywood, veneer, laminated lumber, medium density fiberboard (MDF), unfinished and finished lumber, wood beadings and mouldings, OSB, waferboard, surface worked softwood plywood, and T&G softwood plywood; and second, the elimination of a range of non-tariff barriers in the area of building codes, fire codes, allowed occupanicies, standards, and so forth which prevent the use of U.S. products in timber frame construction.

I would like to offer a specific example of concern to an Oregon manufacturer to illustrate the kind of problems we face in Japan. Several major U.S. exporters of solid wood products to the Pacific Rim have sought assistance in obtaining relief from a misapplication of tariffs on structural laminated beams entering Japan. This problem has resulted in an assessment of tariffs 16.1% higher than called for under Section 4418.90 of the Japanese Harmonized Tariff Schedule which deals with this product, thereby greatly reducing the market penetration of this product.

Potentially the use of structural laminated timber for heavy timber construction in Japan represents an excellent market for American wood products companies, as well as for U.S. architectural and construction firms that design and build these structures. With demand for laminated beams increasing dramatically, construction applications represent a vital new field for American firms. Accordingly Japanese government and industry efforts to impede the development of this market should not be permitted.

One of the companies affected is Bohemia, Inc., a major Oregon producer and exporter of structural laminated beams. Specifically, Bohemia seeks to have Japanese customs officials acknowledge that the correct classification for large dimension structural laminated timber is Section 4418.90, and that the correct tariff rate is 3.9%. Bohemia, Inc.'s letters explaining this problem are included (Attachment III).

KOREA

The U.S. government is also engaged in intensive negotiations with Korea. These talks will focus on removing discriminatory tariffs, the overall reduction of tariffs, and then proceed to examine government controls over wood imports and applications. Although we are represented well by USTR, which has adopted a strategy supported by our industry, increased Congressional attention to these talks could provide the impetus for greater gains sooner.

Korea is a market of huge potential to which we are now being denied access because of a variety of tariff and non-tariff barriers. We are therefore extremely pleased that our government is continuing intensive trade negotiations with Korea, and that the office of the U.S. Trade Representative continues to include forest products as one of the three negotiating groups in the agricultural sector. We are hopeful that these talks will continue beyond tariffs to include the many non-tariff barriers preventing access for U.S. wood products.

Korea holds enormous potential for U.S. forest products. We estimate a $500 million dollar market by 1995 if the tariff and non-tariff barriers come down. The most onerous tariffs are those on lumber (15%), plywood, MDF, and other panel products (20%), and veneer (15%) especially in view of adverse discriminatory tariffs which favor south sea sources.

Without our government's help in removing these barriers, access for solid wood products to the Korean market will continue to be denied.

Apart from tariff barriers, the following points summarize the non-tariff barriers to trade the wood products industry faces in the Korean market.

- a suspected system by which the Korean government sets quotas on overall wood product imports, and allocates the percentage of imports to go to each country, thereby limiting market access with artificially applied import ceilings;

- as of January 1988 the duty treatment of wood products continues to be discriminatory against U.S. products in favor of those of Southeast Asia;

- the Ministry of Construction controls the National Building Code, and foreign firms are offered little or no opportunity to comment on draft standards and regulations; domestic firms may only comment through trade associations;
- the Ministry of Construction controls the amount of foreign wood allowed into the country for construction;
- the government uses restrictive foreign exchange measures to control imports;
- the government controls financing for public housing which prohibits the use of wood;
- the government supports an import substitution policy favoring non-wood materials;
- the government supports an industrial substitution policy of synthetic materials for wood;
- the government mandates reduction of wood use;
- the government promotes non-wood building materials;
- the government supports low grade domestic lumber rather than higher grade imports;
- the government restricts imports through the use of import licensing and quotas.

In spite of these non-tariff barriers, we believe that the necessary first step to opening the Korean markets is tariff reduction.

In anticipation of the approaching bilateral trade talks in Washington August 8-9, 1988 Korea recently announced its plan to reduce tariffs on 651 items, including forest products, over the next five years beginning with immediate reductions effective July 1, 1988. This action appears to be a pre-emptive strike just before the trade talks as a part of a Korean strategy to diffuse U.S. pressure on Korea to open its markets to U.S. goods and reduce its huge trade surplus with the United States, which in 1987 stood at $9.6 billion.

Although the reduction is seen by some as a move in the right direction, even after the July 1 action, tariffs on value added products remain too high to bring about any real change in the market. The U.S. forest products industry wants greater reductions implemented much more quickly than the Koreans have proposed, with staged reductions to reach 0 percent on all products by 1990.

An unofficial report of the talks on August 8-9 indicates that Korean negotiators were unresponsive, and would not confirm any tariff reductions. This is an area where our industry could clearly use greater support in bilateral negotiations.

The United States has also pressured Korea to allow its currency, the won, to float freely on the international monetary exchange. Korea has been unwilling to do this, fearing its exports will lose their competitiveness. So far this year the won has appreciated 8.8%, compared with 8.7% for all of 1987, although the International Monetary Fund has encouraged Korea to appreciate its currency by more than 25% as a means of halving its trade surplus with the U.S.

CHINA

In recent years China frequently has been the second largest overseas market for U.S. forest products and wood has ranked very high among China's imports from the U.S. In 1985 U.S. exports were $329 million (1,087 million board feet). In 1988, timber has been China's largest imported commodity, with U.S. sales up 209% over 1987, already reaching $207 million in May. China holds superb long term development potential for U.S. forest products. We estimate a billion dollar market by the year 2000 if trade barriers can be removed.

The following trade barriers and practices are impeding the ability of U.S. forest products exporters to perform in the PRC:

- wood tariffs among the highest in Asia ranging from 3 to 40 percent;
- an unpublished products tax amounting to 3 to 10 percent collected at the time of entry by the Customs Service;
- suspected discriminatory application of tariffs and the products tax on timber obtained through counter trade with the USSR; this is important because of an increasing reliance on heavy use of wood from the USSR, 417 million board feet in 1985, increasing to an estimated 640 million board feet in 1986 and 729 million board feet in 1987;
- a wood use policy which prohibits structural and other applications of wood products;
- a non-transparent government trade monopoly which does not consider demand from endusers;

- government policies which restrict the use of foreign exchange in forest products trade.

TAIWAN

In 1987 73% of all export sales to Taiwan were hardwood products, but a new market for softwood products appears to be emerging. The Taiwan government plans to expand its domestic markets for U.S. wood products in order to decrease its trade surplus with the U.S., protect its forest environment which has been seriously depleted, and to decrease dependency on tropical products which face increasingly restrictive export controls as they become unavailable. The Taiwan Forest Bureau will be placed under government funding, as opposed to funding from forest sales, and when this happens it is likely that all logging will cease on original growth public lands.

In order to maximize gains from this opportunity, it will be helpful to remove the remaining tariffs on medium density fiberboard, softwood plywood, particleboard, other more highly value added products. Non-tariff barriers on Taiwan are minimal, but problems with import licensing, harbor taxes, service barriers in the banking and insurance industries, barriers to U.S. flag carriers engaged in intermodal container operations, and so forth, still exist.

Taiwan holds market potential which needs to be tapped by the combined efforts of an industry market development program coupled with government efforts to eliminate tariff and non-tariff barriers and influence Taiwan to expand its market for wood products as a means of balancing the trade deficit.

THIRD COUNTRY BARRIERS

The trading practices of third countries often affects the ability of U.S. exporters to compete in a market. I would like to illustrate one way that this can happen.

The tariff on plywood going into Japan is 10%, sufficiently high to restrict exports of U.S. softwood plywood to Japan, which last year reached only $3 million. The Japanese maintain this tariff to protect their domestic plywood industry from imports from Indonesia. Indonesia's wood panel manufacturers receive manufacturing and export subsidies, and thus are able to engage in dumping to capture a market. This practice has already caused contraction in the Korean plywood industry from 7 billion square feet of production per year to around 3 billion square feet today.

The Japan Plywood Manufacturers Association (JPMA) is urging the Japanese government to take Indonesia before the General Agreement whereby Indonesian hardwood plywood manufacturers face a penalty of US$50 per cubic meter if they exceed set country export quotas. Manufacturers can avoid the penalty if they send 30 percent of their exports to a "new market" which has no quota. Since there is no quota for Japan, Indonesian companies are strongly motivated to export to that market.

Indonesia now enjoys 95 percent of Japan's imported plywood market. Japanese imports from Indonesia have jumped from 254,000 cubic meters in 1985 to 1.3 million cubic meters in 1987. Indonesian 1/2 inch plywood has been selling in Japan for US$6.40 against US$7.20 for a comparable domestic plywood, a price which Japanese manufacturers say is already below their production cost. More than 100 Japanese hardwood plywood manufacturers fear serious consequences from the less expensive imports. Meanwhile Japan's tariff, while protecting its industry from Indonesian imports, also effectively blocks growth of U.S. imports into Japan.

IV. THE CRITICAL ROLE OF THE U.S. GOVERNMENT TO ENABLE OUR INDUSTRY TO REALIZE ITS EXPORT POTENTIAL AND EFFORTS TO EXPAND MARKETS OVERSEAS

The efforts of our industry's exporting companies to penetrate foreign markets and the market development efforts of our industry associations can not come close to realizing their full potential without a serious commitment on the part of our government to assist our industry through effective trade negotiations. The market development efforts can not be successful as long as the barriers stay in place.

The governments of each of the countries that we are considering use a heavy hand in controlling the imports and exports of their industries through public policy which translate into trade practices, tariff and non-tariff barriers. To one degree or another in the Pacific Rim we are dealing with planned economies. On this spectrum, Japan is the least planned of the four countries we have covered whereas China's economy is the most planned. Looking at this from another perspective, however, we can say that the barriers we face in Japan are the most non-transparent, and the barriers we face in China are the most obvious. This does not speak of the effort needed to remove these barriers, but only the effort needed to understand them. Since we are dealing with economies that are to one degree or another controlled by government planning our industry does not have the wherewithall to influence the reduction or elimination of these barriers. Only the United States government can do this.

I would like to suggest several areas where the administration prompted by strong political support from Congress, can dramatically change the climate in foreign countries to the advantage of U.S. exporters. Specifically, we need support from

Congress:

- to ensure that language in the recently passed trade bill making all solid wood products eligible for the full range of USDA export financing including GSM-102, GSM-103, and P.L.-480, is implemented by the administration, which heretofore has opposed the use of these programs for some, or all wood products.
- for USDA Foreign Agricultural Service programs. The FAS provides excellent programs, but has not received sufficient funding to realize fully the potential of these programs.
- for Targeted Export Assistance funding at the $325 million level mandated by the Food Security Act of 1985. Recent attempts to cap this program at $110 million will seriously thwart the wood products industry's overseas promotion programs.
- for the wood products industry in trade negotiations. Even if sufficient evidence is accumulated to document trade barriers it will be of no use if it is not used in trade negotiations.
- for a continuation of the MOSS talks with Japan, which are vital if our industry is to make further gains for wood exports to that market.
- for increased emphasis on wood products in bilateral trade negotiations.
- to insure that forest products are adequately addressed in the GATT MTN negotiations.
- for government efforts to document trade barriers to solid wood products. Without sufficient evidence, our government negotiators can not eliminate the obstacles that prevent us from realizing the full potential of overseas markets. In this regard, the Commerce Department's International Trade Administration Study of Trade Barriers in the Pacific Rim is of vital interest to our industry. It is projects such as this that will allow our industry to fulfill our competitive potential.

The Commerce study is the necessary first step in a strong forest products industry program toward eliminating Pacific Rim trade barriers and in gaining commitments from Pacific Rim nations to increase their consumption of North American forest products. Concisely stated, the study is important to our industry for several key reasons:

- The study will provide the basis for U.S. government actions with respect to the Pacific Rim wood markets for years to come.

- An official U.S. government study will document trade barriers and point the way to overcome them; our industry's trade concerns will then gain higher priority when the government determines its trade negotiating objectives.

- To enter into trade negotiations, or if necessary, take trade action on behalf of the U.S. forest products industry, the U.S. government requires comprehensive, in depth evidence of actions by foreign governments and industries that limit trade opportunities. Such documentary evidence must be provided by an agency with the objectivity and credibility of the Commerce Department's International Trade Administration.

- The study results will take the form of a definitive government report and become part of the computerized data bank of wood products trade barriers for use by government negotiators in the GATT and in bilateral trade negotiations.

- The study will be used to form United States government policy guidelines for the Administration and Congress.

- This study will develop information that will facilitate the industry's entry into and further expansion of Pacific Rim markets by providing data on trade practices, distribution patterns, material usage, competition factors, and so forth.

The Commerce Study gives our industry an opportunity to help protect itself against a domestic downturn by expanding international markets. The industry projects only moderate trend growth of domestic markets in contrast to significant growth of markets offshore. The industry's resource base, productivity, and competitiveness give it the capacity to successfully take advantage of overseas markets of opportunity, thereby enhancing correction of the U.S. trade deficits, and bolstering the competitiveness of domestic industries.

VII. CONCLUSION

The United States is increasing its exports of wood products by being the world's low cost producer. A combination of high productivity and comparatively low manufacturing costs means that U.S. processed products are extremely competitive on the world market. The U.S industry has the competitive edge to take advantage of any export opportunities created by government efforts to negotiate the removal of trade barriers.

The best news in 1986 was a Japanese tariff reduction, capping a four-year effort culminating in the MOSS talks in 1985, to reduce wood tariffs in that country. Industry associations assisted our government in gaining a tariff reduction of between 30 to 70 percent on plywood, particleboard, certain lumber items, veneer, and other products.

That victory was quickly translated into new business and new jobs by the Weyerhaeuser Company. The company's decision to build a new veneer mill in Aberdeen, Washington exclusively geared to the export market turned in part on this success. The tariff reduction "sure helped us over the hump in our investment plans", said Ron Young, Weyerhaeuser's general manager of export veneer. Without a doubt, he added, "the reduction gave us a better set of economics for our venture."

Weyerhaeuser isn't the only beneficiary of the tariff reduction. The new mill, which will utilize surplus, low-grade raw material, will bring about 60 much-welcomed jobs to the hard hit town of Aberdeen. "Our general sense is that they're very pleased with the mill's opening," said Young of the high-unemployment area.

I would like to take this opportunity to thank Congressman Wyden for his support of our industry through the Forestry 2000 Task Force. As co-Chairman of the task force he has assisted our industry on many important trade issues, and we are grateful for all his help.

We believe that trade barrier reduction is essential to realize the fruits of our industry's market development efforts, and appreciate the opportunity to make our views known.

STATEMENT FOR THE RECORD
BY
ALAN WM. WOLFF
BEFORE THE
SUBCOMMITTEE ON REGULATION AND BUSINESS OPPORTUNITIES
COMMITTEE ON SMALL BUSINESS
OF THE
UNITED STATES HOUSE OF REPRESENTATIVES
AUGUST 15, 1988

The North American forest products industry has a great opportunity to increase dramatically the exportation of solid wood products -- the opening of markets for solid wood products in Pacific Rim countries. The countries of the Pacific Rim -- Japan, Korea, the People's Republic of China, and Taiwan -- have the fastest growing economies in the world. Chart 1 shows that, while in 1989 the real rates of economic growth for the United States and Europe are expected to be 2.8% and 2.2% respectively, over the next few years the economies of China and Taiwan are projected to grow at a rate of 7% to 8%, Korea at a rate of 5.6%, increasing to over 8% for the years 1991 to 2000, and in 1989 Japan's economy is projected to grow at a rate of 4.1%. This growth alone provides the potential for increasing U.S. exports by over $2 billion per year by 1994.

However, an even greater opportunity exists. Per capita consumption of forest products in the Pacific Rim is still quite low, even though these countries are developing rapidly. Consumption is so low because trade barriers -- some unfair, some legitimate -- impede the importation and increase the cost of North American forest products. To the extent that Pacific Rim government policies influence consumption of forest products, the potential for the North American forest products industry to increase exports to these countries depends on whether we can identify such policies and change them in a way we hope is beneficial to those countries and to the United States. Further, to the extent that we can better understand those private actions and policies that limit importation of North American wood products our companies can effectively work to increase exports. In a nutshell, for the Pacific Rim markets to reach their full potential, forest products consumption in those markets must be increased. Conducting a study to identify barriers to the importation and use of forest products is the first step towards unlocking that potential.

Barriers to Market Access

There are clearly a number of significant tariff and nontariff barriers to Pacific Rim forest products markets. These barriers not only keep North American forest products out of the Pacific Rim markets, but by so doing, they discourage total forest products consumption in the Pacific

Rim by raising the price of these products.1/ Chart 2 shows that prices for comparable products are nearly twice as high in Japan as in the United States.

While some of these market barriers have been identified,2/ there has been no comprehensive study of the causes and effects and trade policy implications of these barriers, nor have all of the barriers been systematically identified. Such a study is the necessary first step in seeking to address market barriers.

Certainly, some of the barriers such as Japan's use of post and beam construction, are not unfair. Others, such as Chinese foreign exchange restrictions and high Korean tariffs on finished products, while perhaps objectionable to the United States, may not be actionable unfair trade practices under the GATT. In any case, knowing which are and which are not actionable and, in the process, learning how to address all of the barriers would be beneficial.

One of the most basic barriers to expanding Pacific Rim markets for solid wood products is the sharp divergence of U.S. and Japanese economic goals. As noted by Jim Fallows in the Atlantic recently, the United States has attempted to

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1/ For example, one government agency estimates that elimination of Japan's market barriers could increase U.S. forest products exports to Japan from $1.3 billion to $3 billion.

2/ E.g., Wood Products: Market Analysis for 20 Selected Countries, U.S. Department of Agriculture, Foreign Agricultural Service, FAS Staff Report No. 7 (Oct. 1986).

structure its economy to maximize individual consumer welfare. Japan's goal has been to increase national wealth in terms of its production base. As a result, the two economies work very differently. For example,

- the United States has become the world's largest overconsumer, while Japan is the world's largest underconsumer.
- the U.S. distribution system is the world's most efficient. Japan's has the effect of greatly dampening consumption.
- American policies enshrine home ownership. Japanese land use and tax policies make home ownership difficult if not impossible. Not only is land much more expensive in Japan, but credit is far less available.
- The Japanese spend approximately a third of their disposable incomes on food, twice the American level.

These differences have a significant impact on the per capita consumption of forest products in the two countries. Charts 3 and 4 show that there is substantial room for expanding Pacific Rim consumption of foreign products. While these differences cannot be changed overnight, their effect can be lessened through the removal of tariff and non-tariff barriers that are in part responsible for the high cost of wood products in Japan and their low consumption.

Another important difference is the way our respective governments approach trade policy. The Japanese government has as its goal advancing the economic interest of Japanese industry, and takes aggressive action to do so. On the other hand, the main goal of U.S. policy has been to promote open trade. To the extent our government acts to enforce U.S. industry rights to sell in third country markets, or to be free of unfair import competition, it is in response to political pressure to do so, and not the result of a strategic plan to enhance the U.S. economic interest. Thus for example, the forceful action that our government took regarding treatment of plywood in the Canada-U.S. Free Trade Agreement was due in large part to efforts like yours, Chairman Wyden, in holding hearings and calling attention to the problem. A study of Pacific Rim market access barriers likewise can focus attention and be a catalyst for U.S. market-opening initiatives.

Benefits of Open Markets

Substantial benefits would accrue to the North American forest products industry from open access to Pacific Rim markets for solid wood products. There are several reasons for this:

First, the consumption of forest products in the Pacific Rim could be greatly increased through the elimination of market barriers. This could occur for two reasons: some of the market barriers directly discourage consumption of wood products, for example, some countries have standards that discourage the use of wood or the building of frame housing.

Apart from such express policies, any barrier tends to increase the price of Pacific Rim forest products artificially, which of course reduces their consumption.

Second, the percentage of solid wood products from North America consumed in the Pacific Rim could be greatly expanded. Setting aside market access barriers, the North American industry is the world's most efficient producer of wood products. The industry could dramatically increase sales to the Pacific Rim with free access to markets. Current sales to the Pacific Rim, and the construction of U.S. plants specifically for such sales (such as the new Weyerhauser veneer mill), suggest that profits can be made.

Third, the Pacific Rim market is changing. Inventories of standing timber are increasing in other countries, such as the U.S.S.R., New Zealand, and Chile. In spite of this increased supply capability, the production capability of these countries is not as great nor as sophisticated as that of the North American industry. As a result, the North American industry has the greatest potential for expanding its exports of solid wood products to Pacific Rim countries if trade barriers are identified and removed.

In sum, for the above reasons, a study of the Pacific Rim forest products markets is necessary. The study needs to be thorough -- focusing not only on consumption, imports, etc., but on market access. We need to determine not only what trade barriers -- formal and informal -- exist, but which ones actually deny access to the North American industry.

The Pacific Rim economies are growing and present a great opportunity for the North American forest products industry to grow as well. Conducting a study of these markets is the first step to take to ensure that this unique opportunity is not wasted.

CHART 1

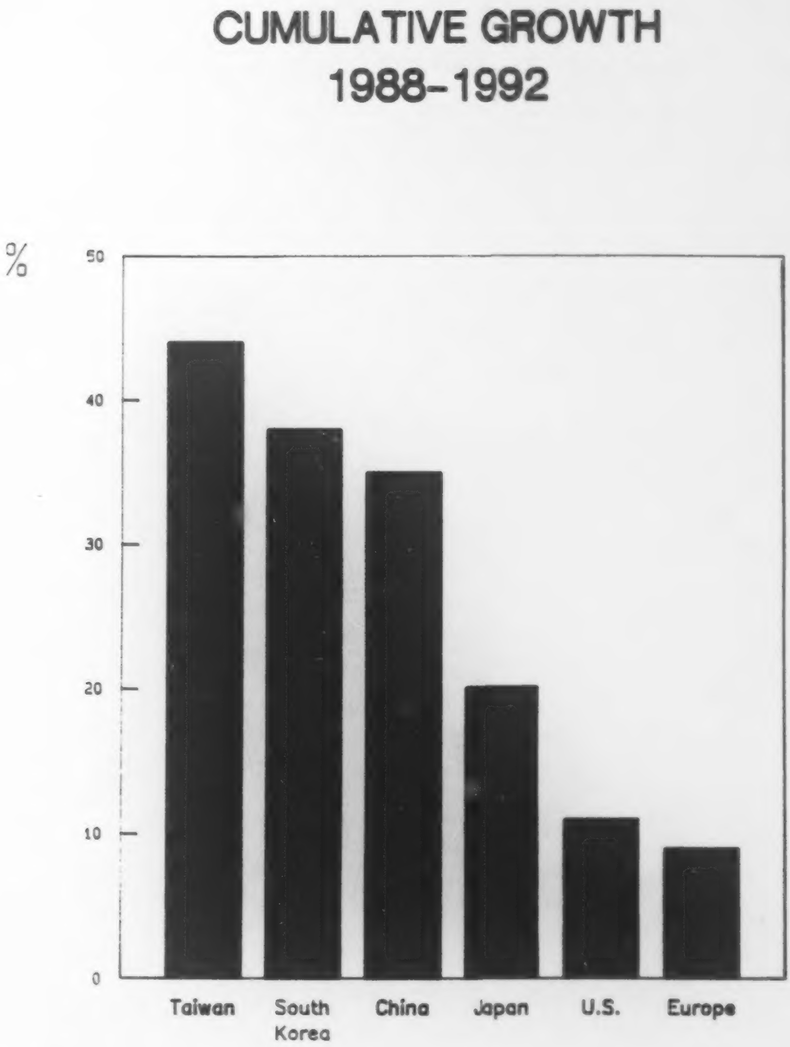
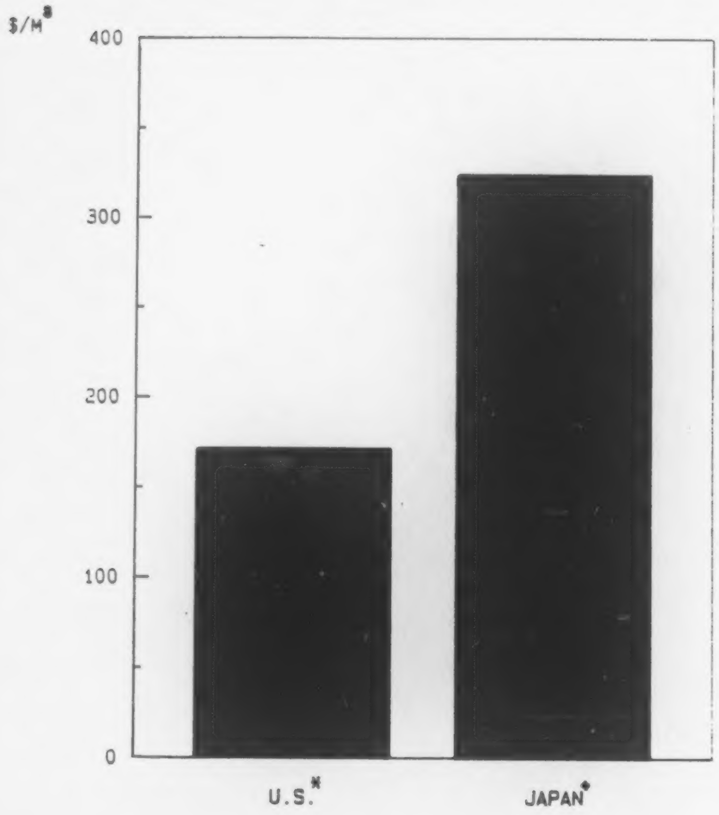

CUMULATIVE GROWTH
1988-1992
%
50
40
30
20
10
0
Taiwan
South Korea
China
Japan
U.S.
Europe

CHART 2

PRICE COMPARISON
U.S. v. JAPAN
(December 1987)



* Douglas Fir 4" X 6" #1 green; Portland wholesale price plus freight and insurance

+ Douglas Fir flitch 10.5cm X 15cm, #1; Wholesale price

ART 3

LUMBER CONSUMPTION PER CAPITA

(CUM – 1987)

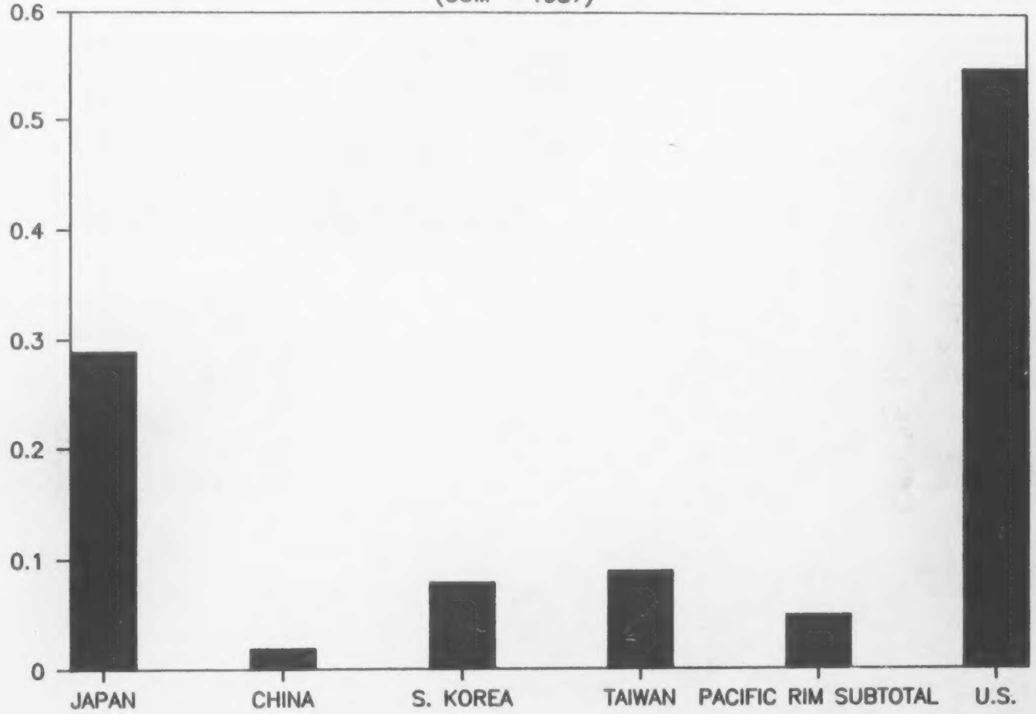
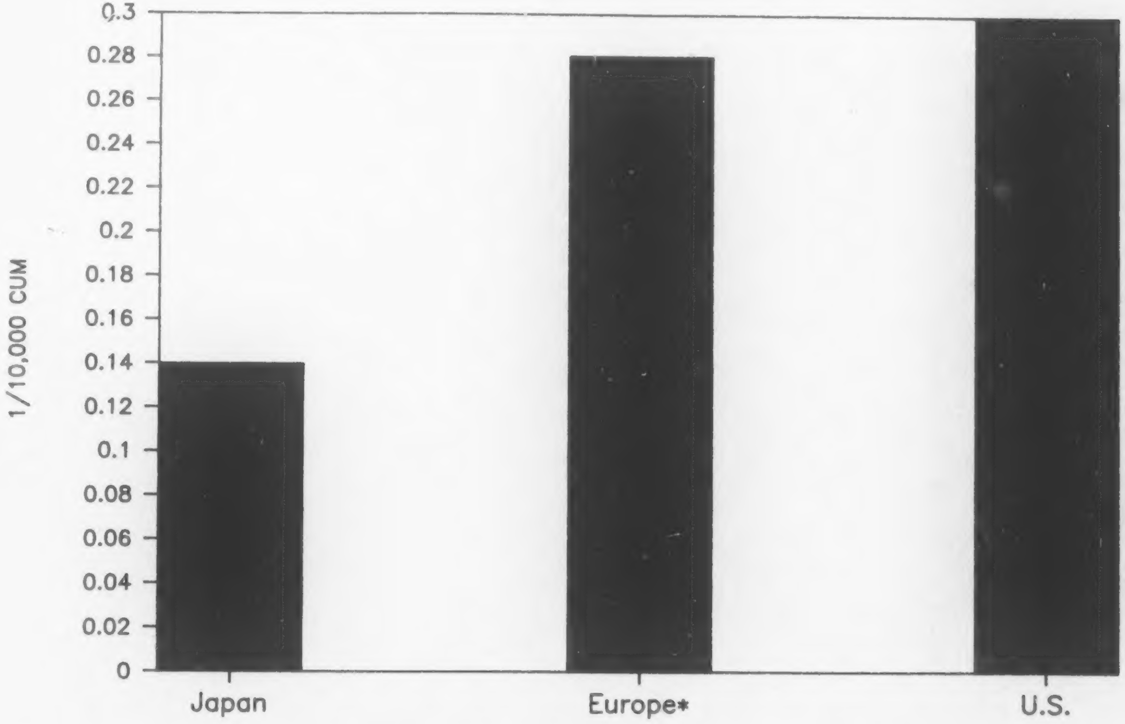


CHART 4

LUMBER CONSUMPTION PER DOLLAR OF GNP



*Includes 25 European Countries

STATEMENT FOR THE RECORD

BY

ROBERT L. DONNELLY

ON BEHALF OF

THE INDUSTRY SECTOR ADVISORY COMMITTEE FOR LUMBER AND WOOD PRODUCTS

AND

CONTACT LUMBER COMPANY, PORTLAND, OREGON

BEFORE THE

SUBCOMMITTEE ON REGULATION AND BUSINESS OPPORTUNITIES
COMMITTEE ON SMALL BUSINESS

OF THE

UNITED STATES HOUSE OF REPRESENTATIVES

AUGUST 15, 1988

INTRODUCTION AND OVERVIEW

Good afternoon Mr. Chairman and members of the committee. My name is Bob Donnelly and I am President of Contact Lumber Company located in Portland, Oregon. I greatly appreciate the opportunity to testify at this hearing on issues involving tariff and non-tariff barriers to U.S. wood products sales in the Pacific Rim. This is an area of great importance to me and I believe that it is of great importance to the wood products industry in Oregon and the nation.

Contact Lumber Company was formed in 1946 in Portland, the location of our corporate headquarters and general sales office. We have 225,000 square feet of plant space located in Hines, Oregon, a growth center of high altitude soft textured ponderosa pine. Our main manufacturing plant is located in Prineville, Oregon on a 60 acre site with over 500,000 square feet of operating space. This is one of the most modern and versatile mill work producing facility geared for domestic and export markets.

Contact is very much involved in international trade. We export to several countries in Southeast Asia, and also import lumber, cut stock, and manufactured wood products from Southeast Asia and South America. In addition to processing mouldings and millwork at our own manufacturing facilities, we place orders overseas for direct mill shipments for customers and maintain inventories at key coastal ports for fast deliveries throughout the United States and Canada. We are involved in trade with Indonesia, Japan, Hong Kong, Malaysia, the Phillipines, China, Chile, Canada, and a number of other countries. In addition to exporting our own manufactured products we also export lumber and plywood.

I am very concerned about the competitiveness of the U.S. wood products industry in the international arena, and have represented this concern through involvement in several public bodies. I am Chairman of the Industry Sector Advisory Committee for Lumber and Wood Products, ISAC-10; I serve as Chairman of the National Forest Products Association's Committee for Trade Policy; and I am Vice Chairman of the National Forest Products Association's International Trade Council.

As President of Contact Lumber I believe that I am uniquely qualified to appear before you at this hearing for several reasons: first, we are located in Oregon, and both contribute to, and rely upon the economic vitality of the state; second, our company is committed to international trade; and third, my involvement in international trade is not just as an Oregon company, but is national in scope.

Today I would like to address the efforts that the ISAC-10 and NFPA's Committee for Trade Policy have made to improve our competitiveness overseas. I would also like to comment on the problems in our national government process in eliminating barriers to export sales in wood products and present some ideas for possible Congressional initiatives in this area.

PRIVATE SECTOR INVOLVEMENT IN TRADE NEGOTIATIONS

The U.S. trade deficit has emerged as a high priority item in our country's international relations, and talks with foreign powers are increasingly dominated by trade considerations. Our government is engaged in bilateral trade negotiations with many countries, and is the primary force behind the multilateral trade negotiations (MTN) under the General Agreement on Tariffs and Trade, known as the GATT.

The Industry Sector Advisory Committee (ISAC) on Lumber and Wood Products advises our government on bilateral and multilateral trade negotiations, provides advice to U.S. policy makers on the operation of any trade agreement once entered into, and "advises on other matters arising in connection with the administration of the trade policy of the United States."

The committee consists of approximately 25 members, all appointed by the Secretary of Commerce and the United States Trade Representative (USTR), representing the full range of U.S. solid wood products exports.

The ISAC program is chartered by the Industry Consultations Program, established under the Trade Act of 1974, and is administered by the U.S. Department of Commerce Trade Advisory Center. The center acts as a contact point for the private sector concerning trade problems, and as a channel to the advisory committees and U.S. trade policy officials for all interested parties not directly represented on the committee.

Our industry's trade policy program includes: (1) ISAC-10; (2) the NFPA Committee for Trade Policy; (3) the wood products industry's policy and principles for trade negotiations; and (4) a data bank of information on tariff and non-tariff barriers.

NFPA's Committee for Trade Policy met in January 1988 and approved a draft industry position paper on trade negotiations. This paper which was unanimously approved by a vote of NFPA's Board of Governors and by ISAC-10 with broad industry support from the major product associations is now being widely distributed to government agencies involved in trade negotiations, and is being used to guide the formation and communication of industry objectives to our government for the GATT multilateral trade negotiations.

THE TREATMENT OF WOOD PRODUCTS IN TRADE NEGOTIATIONS

I would like to address the issue of the place of wood products in the current Multilateral Trade Negotiations (MTN) under the auspices of the GATT as its treatment there affects its treatment in bilateral trade negotiations.

In March 1988 NFPA's Committee for Trade Policy met with Ambassador Daniel Amstutz, the U.S. Agricultural negotiator in the current GATT MTN. We discussed how wood products will be treated in the GATT, and which government agency will take responsibility for wood products in trade negotiations.

Ambassador Amstutz said that the wood products industry will be best served in the GATT's agricultural trade negotiations because the strategy in these negotiations is to reduce all tariff and non-tariff barriers to zero, whereas the strategy in other negotiating groups will be on a request-offer basis targeting specific tariff and non-tariff barriers.

However, Amstutz warned that it is very possible that wood products will be separated out of the agricultural negotiations this year. Traditionally, wood products have not been treated as an agricultural product under the GATT, and unfortunately in the GATT, precedent is very important. So far, no nation has supported the U.S. in including wood products under the agricultural negotiations. The primary reason for this is that the developed countries treat wood as an industrial product in the commercial sector. We do have some support from third world countries, however, in including wood products under agriculture.

This discussion with Ambassador Amstutz points out that the wood products industry should be vigilant and monitor the progress of the GATT. If wood products are dropped out of the agricultural negotiations, the wood products industry must ensure that they are dealt with under other negotiating groups, i.e., subsidies, tariffs, non-tariff measures, and tropical products, and in the market access group which will deal with tariff and non-tariff measures.

Where wood products will be placed in the GATT will probably be decided before the end of 1988. The decision about including wood products under agriculture will probably be made outside of the United States, in the larger sphere of the GATT negotiations.

Because wood products could easily slip out of the agricultural negotiations, it is important to get a shopping list of our tariff and non-tariff concerns to the Office of the United States Trade Representative and other involved government agencies. It is also important that we have the support of the U.S. government that will insure that our concerns are addressed. Representatives from the Departments of Commerce, Agriculture, and the Office of the United States Trade Representative will be involved in all of the negotiations.

U.S. WOOD PRODUCTS INDUSTRY POSITION ON TRADE NEGOTIATIONS

I would like to describe the U.S. wood products industry policy and principles on multilateral and bilateral trade negotiations, for I feel that especially in the Pacific Rim these are very important to achieve our industry's objectives in reducing trade barriers not just for a few selected products, but for the full range of solid wood products, regardless of the incremental state of manufacture.

U.S. WOOD PRODUCTS INDUSTRY POSITION ON MULTILATERAL AND BILATERAL TRADE NEGOTIATIONS

I. POLICY FOR TRADE NEGOTIATIONS

The U.S. wood products industry supports the concept of free and open trade between nations. It does so because it believes this approach will do the most to build the economic strength of all countries in the world, thus continuing to improve their buying power for wood products. The industry projects only moderate trend growth of domestic markets in contrast to significant growth of markets offshore. The industry's resource base, productivity, and competitiveness give it the capacity to successfully take advantage of overseas markets of opportunity, thereby enhancing correction of the U.S. trade deficits.

The U.S. wood products industry, however, is deeply disturbed by the high tariffs and significant non-tariff barriers which face its products throughout the world. Tariffs are often the highest in some of the most developed countries, and because these tariffs are often so high for wood and processed wood products, they totally preclude America's ability to compete. The industry believes its government should use all of its economic and negotiating clout to see that barriers to trade are eliminated.

In addition, the U.S. wood products industry is opposed to subsidies that distort world trade in wood products. It encourages the U.S. government to take strong action to eliminate such subsidies.

The U.S. wood products industry supports the Uruguay Round of Multilateral Trade Negotiations (MTN) under the aegis of the General Agreement on Tariffs and Trade (GATT), as well as bilateral trade negotiations, as important means to achieve its international trade objectives. These include: eliminating tariff and non-tariff barriers to U.S. wood industry exports;imposing greater discipline over such unfair trade practices as government subsidies which give unfair advantages to foreign competitors in our markets or in third markets; and providing for more expeditious settlement of trade disputes between countries in order to maintain a healthy international business climate in which the U.S. wood products industry can prosper.

The industry will communicate its primary interests in the MTN and in bilateral negotiations to the U.S. government through its

Industry Sector Advisory Committee and through other agencies and channels as appropriate. The industry position is that the President should be granted the authority he needs so that by way of the MTN and other bilateral trade negotiations, tariff and other concessions may be obtained from our trading partners that will increase U.S. access to foreign markets.

II. PRINCIPLES OF TRADE NEGOTIATIONS

The U.S. wood products industry believes that U.S. negotiators should take the following positions in trade negotiations:

1) That all major developed countries shall have zero tariffs on all wood products, regardless of the level of processing.

2) That newly industrialized countries (NICs) shall agree to a near term (less than 5 years) schedule to have zero tariffs on all wood products.

3) That all less developed countries (LDCs) that have competitive industries in any wood products sector shall follow the same format as the NICs in those wood products sectors.

4) That all other LDCs shall have no tariff on any wood product over 10%; that such tariffs shall be temporary and serve only to protect an industry for development purposes; and that in any case LDCs shall phase out all tariffs over a maximum ten year period.

5) That subsidies for forest products worldwide shall be eliminated.

6) That the principle of performance standards for structural panel products be accepted worldwide.

7) That there shall be no tariff differential between processed and unprocessed wood products.

8) That improved access to U.S. markets shall not be granted without reciprocal treatment for U.S. wood products.

9) That access to U.S. markets, including that provided under the Generalized System of Preferences program, shall be used vigorously to improve access for U.S. wood and processed wood products in foreign markets.

10) That non-tariff barriers for forest products worldwide shall be eliminated.

THE WAY TO OPEN MARKETS: POLICY, EVIDENCE, STRATEGY

The way to win is to come up with a strategy which puts the entire industry in a position to substantially expand exports by focusing on market access for all U.S. wood products.

With such a strategy, we have the advantage of representing our industry with a national position, not regional or factionalized. We could therefore expect political support from many areas of the country.

To be effective, a strategy must be based in a definitive documentation of trade barriers. It is of vital importance that studies be conducted that document trade barriers and give evidence about how they operate and that these studies be credible and reliable.

The case also needs to be made to Congress and the administration that we are not satisfied with business as usual, but believe that the time is right to make our industry a focal point in winning open access to Pacific Rim markets.

The object is to win. The way: a sound broad-based policy, effective studies, a realistic strategy, and political and industry support. We have the policy; the study would give it the visibility and definitive documentation necessary to make it effective, and it is upon the basis of the policy and documentation of barriers that a strategy can be formed. The only down side is if we don't participate, and in the end, don't win at all.

Today we have a superb and unprecedented opportunity to make gains that benefit our industry and country. The opportunity is now. The Commerce Department has commenced a study of trade barriers in the Pacific Rim. If we miss this opportunity, it may be a long time before we get another as potentially beneficial to our industry as this one is. Given the importance and projected growth in the Pacific Rim, this study could be the key to the prosperity of our industry in the 1990's.

RECOMMENDATIONS

Before I conclude my testimony, I would like to make several recommendations for Congressional initiatives to improve market penetration and expand markets for U.S. solid wood products in the Pacific Rim.

First, the U.S. Department of Commerce must be impressed with the importance of refraining from setting priorities our industry's needs especially to the exclusion of those products for which we face the most extreme tariff and non-tariff barriers overseas.

Traditionally the Commerce Department and the U.S. Trade

Representative have negotiated for the reduction of tariff and non-tariff barriers for only those products which have demonstrable market penetration as evidenced in existing trade flows. This method of prioritizing based on existing trade flows excludes those products which have not been able to gain a market share. It is understandable that our government negotiators would want to emphasize in their negotiations those products which stand to bring the U.S. the greatest gains in exports. This is why they fall back on proven export performance. I would like to point out however, that often times there is excellent export potential where no trade flows exist because of the restrictions caused by tariff and non-tariff barriers. If those barriers were removed there could be an excellent market for products which currently are not exported at all. It would seem that in many cases the lack of exports might be the standard for setting objectives in the trade negotiations.

Furthermore, the process of setting priorities has in the past excluded a wide range of processed wood products. Prior to the 1980's much less of our industry was actively involved in the export market, and fewer people cared about the exports because domestic consumption was sufficient. This situation is no longer the case.

In the Tokyo Round of the GATT emphasis was placed only on lumber and plywood items. What was satisfactory then will not satisfy our industry today. More people are concerned about exports and more of our industry wants their concerns addressed by our government in trade negotiations. This means that many more products will be negotiated and the setting of priorities which excludes many products will have to cease in order to satisfy the full breadth of our industry.

Second, I would like to point out that sufficient documentary evidence does not exist to effectively negotiate the reduction and elimination of non-tariff barriers that face our products overseas. For our U.S. negotiators to be effective, they must have tools in the form of proof of the existence of non-tariff barriers, and clear descriptions about how they operate. A Congressional initiative to provide this evidence is essential if the market development efforts by our associations and market penetration efforts by our companies are to be effective.

Third, a Congressional initiative and the proper political support could insure that our government develops and uses an effective strategy for the elimination of trade barriers that face our industry overseas.

Fourth, sufficient Congressional support for the research that our industry has undertaken, for the strategies that our industry has developed, and for our industry's objectives in the trade negotiations will insure that U.S. government negotiators give the solid wood products industry an important place in the trade negotiations.

Fifth, our industry needs the political support of Congress to insure that if the Department of Commerce and the U.S. Trade Representative do set priorities for the trade negotiations, that these priorities accurately reflect the needs of our industry.

Mr. Chairman, I would like to thank you very much for this opportunity to testify. This is a very important hearing because trade barrier reduction is essential if our industry is to realize the fruits of its market development efforts in the Pacific Rim. I very much appreciate this opportunity to make my views known.

TESTIMONY OF MICHAEL T. KELLEY BEFORE THE HOUSE SUBCOMMITTEE ON REGULATION AND BUSINESS OPPORTUNITIES

AUGUST 15, 1988

IT IS GRATIFYING TO NOTE THE IMPROVEMENT IN THE CONDITION OF THE SOLID WOOD INDUSTRY OVER THE LAST SEVERAL YEARS. THIS IS AN INDUSTRY THAT HAS KNOWN HARD TIMES IN THE NOT TO DISTANT PAST, AND ONE WHICH MY ANALYSTS HAVE MONITORED WITH MUCH CONCERN.

FOR 1988, THE SOLID WOOD PRODUCTS INDUSTRY (SIC 24) IS EXPECTED TO INCREASE ITS VALUE OF SHIPMENTS BY ABOUT 4 PERCENT OVER 1987. THIS WOULD BRING TOTAL 1988 SHIPMENTS FOR THIS INDUSTRY WHICH EMPLOYS OVER HALF A MILLION WORKERS TO ABOUT 64 BILLION DOLLARS. THE PACIFIC NORTHWEST IS A DYNAMIC AND GROWING SEGMENT OF THE INDUSTRY.

LUMBER AND WOOD PRODUCTS ARE CONTINUING TO ENJOY STRONG DOMESTIC AND FOREIGN MARKETS IN 1988. OUTPUT IN ALL PRINCIPAL PRODUCT CATEGORIES IS INCREASING, AND PRICES ARE UP ABOUT 4 PERCENT OVER THE PREVIOUS YEAR. HIGHER OUTPUT AND IMPROVED PRICES HAVE RESULTED IN STRONG GAINS IN PROFITABILITY, PARTICULARLY FOR SOME WEST COAST PRODUCERS.

INDUSTRY EXPORTS HAVE BEEN FAVORABLY INFLUENCED BY THE DECLINE OF THE DOLLAR AND CONTINUED INVOLVEMENT IN EXPORT ENHANCEMENT PROGRAMS. U.S. HARDWOOD LOG AND LUMBER EXPORTS TO SOUTH KOREA, TAIWAN, AND JAPAN ROSE AS WOOD PROCESSING industries in those countries sought replacements for curtailed shipments of tropical hardwood logs by Indonesia, the Philippines, and other traditional Southeast Asian suppliers. Wood exports to Japan, South Korea, and Taiwan also continued to increase, largely as a result of tariff concessions gained in government to government negotiations.

For 1989, anticipated flat domestic demand, largely because of decreasing housing starts, will result in less total domestic growth than that of 1988. This means that continued growth in exports assumes an even greater significance if the industry is to continue to prosper.

Over the years, exports have played an increasingly important role in the health of the U.S. solid wood products industry. This was clearly documented in *A Competitive Assessment of the U.S. Solid Wood Products Industry*, produced by the solid wood products analysts of Trade Development/Basic Industries (TD/BI) in August 1984. "For years, exports have accounted for an increasing portion of production in the United States. In 1950, U.S. exports were about 1 percent of production. By 1980, this percentage was 17.5. While this nation's total production was stagnant during 1970-1981, exports increased 30 percent." The report goes on to state that: "Future domestic demand for solid wood products, in our view, will increase very little, if at all, in the period to 2000." Future market growth must come from increased exports.

Since that report was written, solid wood exports have increased from $2.7 billion in 1984 to an estimated $5.7 billion in 1988 with 1988 exports projected to be approximately 45 percent over those of 1987. In recent years the trade balance in solid wood products has gone from -$2.4 billion in 1985 to an estimated $200 million in 1988.

Trade Development/Basic Industries analysts have participated in several events which have contributed significantly to increased exports and an improved balance of trade for the industry. One of these was the MOSS talks with the Japanese which resulted in substantial tariff reductions and have been a major factor in increased solid wood exports to Japan, $1.1 billion in 1985 versus $1.8 billion in 1988. During the Tokyo Round of the GATT negotiations, Japan did agree to lower its tariffs on most softwood lumber items and particleboard to 6.5 percent and 12 percent, respectively. In addition, the recent U.S.-Japanese MOSS talks have resulted in tariff reductions on forest products (including lumber and panel products).

On January 10, 1986 the Japanese Government offered staged tariff reductions (through April 1987) on wood products averaging 30 percent from their pre-1986 levels mentioned above. (The sole exception is softwood plywood, for which the Japanese Government has agreed to lower its tariffs to 10-15 percent on various grades by April 1988.)

Thus, as a result of the MOSS talks, softwood plywood tariffs will range from 12.5 to 17.5 percent, unfinished lumber imports will be taxed at 4.8 percent, particleboard at 8 percent, wood moldings at 4.8 percent, and laminated lumber at 15 percent ad valorem.

While there are still substantial impediments to trading in the Japanese market, these tariff reductions do represent real progress and it was gratifying to have been able to participate in the MOSS talks which have clearly resulted in increased exports.

Table I
Solid Wood Products Exports to Japan
($ Million)

SIC 24	1985	1988(est)
Hardwood Logs	8.2	27.4
Softwood Logs	674.1	1,697.0
Softwood Lumber	170.7	494.5
Hardwood Lumber	29.4	147.2
Millwork	2.8	5.4
Softwood Plywood	1.8	4.2
Hardwood Plywood	160.6	266.5
Particleboard	0.2	2.9

As shown in Table I, there has been marked improvement in exports to Japan; that table also shows that value-added products are still a very small part of total exports. Obtaining more open markets for our value-added products should be a reasonable expectation for U.S. solid wood producers. One purpose of our study is to document impediments to trade so that future discussions with the Japanese can have as firm a basis in fact as possible. Furthermore, I believe that removal of impediments to trade can result in a real saving to the Japanese consumer.

Standards are a major barrier to increased trade with the Japanese. The United States has been seeking a modification of Japanese standards for lumber and building products, Japanese building and fire codes, and Japanese wood product certification procedures. For example, Japan requires Japanese Agricultural Standard (JAS) certification for most wood products. The U.S. wood products industry maintains that importers who want to obtain JAS approval frequently encounter significantly greater difficulty than domestic (Japanese) wood products producers. In addition, Japanese product standards for waferboard and oriented strandboard have not yet been implemented; a factor which the industry feels is preventing it from being able to gain access to a potentially large market.

WE ARE ALSO GOING TO ADDRESS THE QUESTION OF ALLEGED TWO-TIER PRICING, IN WHICH JAPANESE LUMBER PRODUCED FROM IMPORTED U.S. LOGS IS ALLEGED TO BE PURCHASED IN PREFERENCE TO SIMILAR U.S. LUMBER EVEN THOUGH IT IS MORE EXPENSIVE.

THESE GAINS IN SOLID WOOD PRODUCTS EXPORTS TO JAPAN HAVE, OF COURSE, BEEN OF PARTICULAR BENEFIT TO THE PACIFIC NORTHWEST (PNW). IN 1987 THE STATES OF WASHINGTON AND OREGON EXPORTED 2 BILLION BOARD FEET OF SOFTWOOD LOGS AND 851 MILLION BOARD FEET OF SOFTWOOD LUMBER TO JAPAN. FOR 1988, THIS NUMBER IS EXPECTED TO BE EVEN LARGER. IN 1987 THE PNW ACCOUNTED FOR 80 PERCENT OF THE TOTAL VALUE OF U.S. SOFTWOOD LOG EXPORTS, 59 PERCENT OF SOFTWOOD LUMBER EXPORTS, AND APPROXIMATELY 55 PERCENT OF TOTAL SOLID WOOD EXPORTS. BY 1988, THE PNW WILL ACCOUNT FOR AN EVEN HIGHER PROPORTION OF THESE EXPORTS.

THE SECOND MAJOR OCCURRENCE IN THE SOLID WOOD INDUSTRY I WISH TO MENTION IS THE RECENT AGREEMENT WITH THE CANADIANS WHEREBY OUR NEIGHBORS TO THE NORTH HAVE AGREED TO A 15 PERCENT EXPORT TAX ON SOFTWOOD LUMBER. IN MY OPINION, THESE NEGOTIATIONS--PARTICIPATED IN BY TD/BI--WERE A GOOD EXAMPLE OF HOW EVEN THE STICKIEST OF INTERNATIONAL DISPUTES CAN BE SETTLED IF BOTH PARTIES KEEP AN OPEN MIND AND LOOK FOR ALTERNATIVE SOLUTIONS. I FEEL THAT THESE NEGOTIATIONS WERE CONCLUDED SUCCESSFULLY IN LARGE MEASURE BECAUSE OF THE EXCELLENT COOPERATION BETWEEN OUR INDUSTRY AND THE U.S. NEGOTIATORS.

This agreement had benefits far beyond those to the wood products industry. The settlement of this long-standing dispute helped pave the way for the Canadian Free Trade Agreement which I am convinced will benefit both nations. Since the agreement, which basically has had the effect of increasing Canadian stumpage fees, the percent of U.S. softwood lumber demand supplied from Canada has decreased from about 33 percent to 28 percent. Just as important, prices have increased so that operations are now generally profitable on both sides of the border. (This is not to say that all price increases are attributable to the settlement.) Prior to the agreement softwood lumber prices were about $200 per thousand board feet, since the agreement they have been consistently above this level and even though they are now lower than they have been, they are still nearly 20 percent above their preagreement level.

I am well aware of allegations that there are violations of the agreement in British Columbia (BC). Commerce officials are meeting with representatives of both British Columbia and Ottawa to discuss their alleged violations. These allegations center around BC's "cap" on stumpage fees in its interior and BC's failure to increase stumpage fees on July 1 to reflect recent increases in the Statistics Canada softwood lumber index. I am hopeful that this issue will be resolved in the near future.

The Canadian Plywood standards issue also remains a bone of contention. Speaking for myself, I don't think that the Canadian Housing Mortgage Corporation acted in a constructive and forthcoming manner in the this issue, and I don't favor lowering our tariffs until a joint performance standard for Plywood been agreed upon.

I wish to cite several other activities supported by TD/BI which I think will bear fruit in terms of increased exports, although not as dramatically or as immediately as the MOSS talks, and these are the Inter-American and Pacific Rim Housing Conference of recent years. Such activities are a vital first step in opening up minds and, therefore, markets to the benefits and improved characteristics of wood housing. We were pleased to be a part of these activities.

I would also like to list several studies done by the Forest Products Division of Basic Industries in Trade Development: Developing Competitive Markets in Forest Products - Brazil and Developing Paper Products Markets in Mexico and the Caribbean. Both of these studies have been well received and have added to the body of knowledge of foreign markets for solid wood products. I hope that the foregoing discussions relating to the involvement of TD/BI in wood products issues and their accomplishments display their competence to do the Japan Study.

The original intent of Senator Packwood was to have a study of selected Pacific Rim countries done by December 31. We have agreed to do the assignment on a country-by-country basis. Japan, which accounts for about two-thirds of all U.S. solid wood exports to the Pacific Rim, was the logical first country for study. I favor this country-by-country approach since it allows us to develop the first study as a prototype for the later ones. I assure you that all of us, both TD/BI and industry, are dedicated to producing a complete and useful study which will be of benefit in future talks with the Japanese.

THE JAPANESE SOLID WOOD PRODUCTS MARKET: PROFILE AND OUTLOOK

I. Overview and Summary of:

- o Extent of industry covered by study
- o Status of domestic industry
- o Current supply/demand picture
- o Foreign trade patterns and constraints
- o Outlook to the year 2000

II. Japanese Consumption of Forest Products

- o Demographic factors (shifts in population, income, per capita use)
- o Types of products consumed and major end uses
  - -- Post and beam vs. frame housing, including trends
  - -- Average home size, including trends
  - -- Use of wood in housing, including trends
- o Competition with nonwood materials and imports (prices, cultural preferences, alternative products, etc.)
- o Economic and policy determinants government wood use (supply, demand, home ownership and mortgage availability policies, etc.)
  - -- Building and fire codes: effects
  - -- Other policies affecting wood usage
- o Projected trends

III. Raw Material Base

- o Scope and characteristics of the forest resource (ownership, species, acreage, accessibility)
- o Forest management and policy (agencies, programs, funding, practices)
- o Reforestation (acreage, programs, plans, funding, research)
- o Forest exploitation and land use (utilization and deforestation patterns, competition from agriculture and industry, infrastructure, log removal)
- o Total fiber supply (source domestic/import)
- o Projected trends

IV. The Japanese Solid Wood Products Industry

- o Structure and location (mills, labor force, infrastructure, relation to major consumers)
- o Ownership (domestic and foreign)
- o Trade associations (membership and purposes)
- o Production and capacity (long-term trends) by sector (capacity expansion)
- o Financial condition
- o Production efficiency
  - -- Type of machinery by (age, efficiency)
  - -- Domestic and international competitiveness

- Production costs (breakdown if possible)
- Prices of logs, lumber, veneer, plywood and millwork (domestic, imported)
  - Compare to other countries
  - Trends
- Environmental concerns and practices (costs, legislation)
- Government and other subsidies
- Japanese sales and distribution system (trading companies, capital relationships between manufacturers and wholesalers etc.)
  - Identify: policy and structure
    - Effect of "fair competitive codes"
  - U.S./Canadian offices: existence and effectiveness
  - Quantify
- Transportation, distribution
- Projected trends

V. International Trade

- Imports/exports (products, suppliers, markets, shares, trends)
  - Canada, U.S., S.E. Asia
  - Effect of relatively new participants (New Zealand, Australia, U.S.S.R.)
- Specific trade with the United States (historic patterns) and trade issues
- Tariff barriers
  - Magnitude
  - Policy and structure (e.g. relative effect on importation of value-added products)
  - Effect on trade (quantity if possible) in both absolute and relative (e.g. value-added vs. raw material) terms
- Nontariff barriers
  - Standards
  - Japanese inspection and certification procedures
  - Shipping requirements
  - Government procurement
  - Other
- Other country export practices that result in distortions in Japanese market
  - Indonesian, Maylaysian and Canadian log export policies (as they impact Japan)
  - Major export subsidies
- Programs to increase imports/consumption: limitations on effectiveness, if any
- MOSS talks
  - Completed
  - Ongoing/upcoming
- Projected trends

ROBERT G. ANDERSON REMARKS FOR THE SUBCOMMITTEE ON REGULATION AND BUSINESS OPPORTUNITIES HEARING

PORTLAND, OREGON
AUGUST 15, 1988

Congressman Wyden and members of the Committee, thank you for the opportunity to present views for the structural panel industry. While the basic thrust of my comments is toward structural panels, you will see that it also applies to lumber and other wood products. We are most supportive of efforts that will help our industry team with government to remove tariff and nontariff barriers in Pacific Rim countries.

I am Robert G. Anderson, Director of Market Research and Economic Services for the American Plywood Association. Our group represents roughly 80% of the U.S. structural panel industry. Our role combines quality assurance and market development for the industry.

Today I would like to discuss some of the long-term problems facing our industry and how the development of Pacific Rim export markets can help solve those problems.

As you know, from 1980 through 1982 the structural panel industry endured a disastrous production depression because the housing industry was limited to between 1 million and 1.2 million units per year. Our industry has improved since 1983, primarily because the housing industry recovered to a 1.5 to 1.8 million unit range. It has been often said that our industry rides or falls on the wings of the housing market.

We have, for a number of years, attempted to reduce the impact on our industry's health from U.S. house construction declines. Our promotion to nonhousing markets has begun to show positive results. Even this year, with a housing decline of 10% from 1987, we expect to achieve a new production record. Markets other than domestic housing make this possible.

I won't describe all of the nonhousing markets in detail today. However, I do want to spend some time on one of them, the offshore or export market.

Before I get specific, let me say again why exports will be so important. During the decades of the 60s and 70s, U.S. housing averaged 1.9 million units per year. During the 80s, housing volume dropped to a 1.5 million unit average. Demographics tell us that during the decades of the 90s and up to 2010 our maturing population will be forming 300,000 fewer families than during the 80s. In other words, for 25 or so years starting in 1993, U.S. housing starts will average only 1.2 million units. We will be forced to find markets for 2 billion sq. ft. of our products somewhere else if we are to retain our current industry.

You may remember 1980-1982, years when housing starts averaged 1.1 million. Our industry was in a shambles. People were out of work as plants closed and businesses failed. We are looking at a housing market five years from now that will be much the same as it was during that trying period.

The domestic nonhousing markets are developing nicely. They will help, but they cannot develop rapidly enough to offset the 1993 housing drop.

It boils down to a need for preparing markets now that will be ready in 1993 to fill the cavity in demand left by the reduced housing market.

In our judgment, the offshore markets are the only realistic hope for such a rapid demand advance.

But what countries are most likely to provide the demand? How can we assure reasonable tariff treatment? How can we overcome the other barriers to trade?

It seems to me the proposed Pacific Rim studies are made to order to help industry answer some of these questions. It also seems evident that our government can use new data for government-to-government negotiations that will help remove these barriers.

Specifically, we know some of the problems in developing Pacific Rim trade for wood products. Japan, as an example, has a continuing high tariff despite the reductions over the past 3 years. Japan also is very protective of its wood products industry which motivates Japan to maintain effective nontariff barriers.

Japan is the number one Pacific Rim target for U.S. wood product export development. The Japanese use wood in housing and in many other applications. In housing alone, they build 1.3 to 1.5 million units per year and could be a tremendously large market for our products.

I'd like to take a minute here to report on how joint government and industry efforts can speed up the market development process.

As I said, we have made some strides in Japan. A modest tariff reduction and some favorable code and product standards actions have occurred in Japan during the last three years. These have been the result of combined government and industry work. At the time the Summit House, a major demonstration house project in Tokyo, was being planned, government to government discussions were underway on plywood standards and code problems under the Market Oriented Sector Specific (MOSS) talks.

The Summit House served to focus specifically on the need for agreement on code and standards issues. In that house, variances in Japan codes were required to permit 3-story wood construction in Tokyo. Variances in standards were also needed to permit use of several of the wood products scheduled for the structure.

The structure was built and has been very successful as a continuing demonstration of how U.S. wood products can be efficiently used in Japan. The MOSS talks started the ball rolling on codes and standards action, certainly in part because the Summit House market development project focused on the need for such action.

We are gaining acceptance on a prefecture by prefecture basis (like state by state) and we have the full support of the Japanese government as we proceed.

In other words, the Summit House acted as a catalyst in getting action by the Minister of Construction. It had the effect of hitting the DOC over the head with a 2x4 to get his attention.

We now have a seat on the Ministry of Construction's Advisory Committee and have full government support for our Street of Dreams demonstration project in Kobe, Japan. We need more of these government and industry coordination successes. The job is not done, despite the recognition successes and the modest increase in sales already achieved.

We need to know more about Japanese trade practices so we can better devise strategies for overcoming the nontariff barriers. We also need more information to help us and our government devise strategies for further tariff reductions. The current 10% tariff on structural panels is definitely a deterrent to trade.

Korea also appears to be a good wood user prospect. This developing country has the money for trade and is expanding its domestic housing base. Wood use has been favored and our share could have a good opportunity to increase.

We need help in overcoming the 20% tariff as well as in removing the import licensing requirements and the building code blocks. More information on trade practices and government motivation will help our joint government/industry team open Korea to our products.

Taiwan does not have prohibitive tariffs, but does have import licensing requirements, restrictive taxes on the use of harbor facilities and barriers in the banking system and shipping system. Taiwan's use of U.S. wood products has been tied to its GSP ranking in U.S.-Taiwan trade. This status is removed effective January 1, 1989. How this will impact trade is uncertain at this time. More data are certainly needed to help us prepare for the change and to develop an assured future wood products trade.

China is a mammoth country with potentially tremendous wood products needs. The obvious problem of monetary exchange is only a small indication of the problems to be solved. Tariffs of 12% on plywood and 30% on waferboard/OSB are restrictive and confusing. Government involvement in trade is another concern. How do we deal with these things?

As you can see from this brief litany, there is a great need for information. We must begin to break down the barriers to trade now, however. To do less will be to invite disaster for our industry in the near future.

Just as a reminder, we are concerned for the entire industry, but point out that West Coast producers are positioned very attractively to participate in Pacific Rim countries trade. We have estimated that a realistic potential for structural panels in the four countries cited will be 750 million sq. ft. by 1992. This anticipates 350 million sq. ft. by Japan, 200 million by China, and 100 million by each Taiwan and Korea.

Putting that volume into perspective, it means we will be able to keep 6 mills operating with 1,290 employees and gross sales at the mill level of over $200 million.

These four countries alone will make up 38% of the needed new markets to sustain our industry at current levels. There are enough opportunities in other Pacific Rim countries to make up the entire 2 billion sq. ft. shortfall from our domestic housing slowdown.

Our concern in the West is clear. Oregon, with its 55 producing units, is the largest structural panel producing state and Washington, with its 18 units, is fourth. The Pacific Rim markets are critical to keep these Western mills going.

We will obviously need more studies and more market development to sustain our industry at current levels. However, we must start now and the current ITA study proposal appears to us to be a very necessary first step.

Let me make a brief mention of one further need in our market development efforts. Although the four countries mentioned are basically able to finance materials purchases, there are lesser developed countries on the Pacific Rim who cannot obtain financing, but have the will to build and the capacity to pay. For those countries, special financing arrangements are often necessary. This is another area where industry seeks help. The Omnibus Trade Bill has language that should be beneficial by classing wood products for eligibility under Commodity Credit Corporation programs. Congressman Wyden has helped on that and on the use of PL480 Food for Peace program. We are grateful for those efforts and we look forward to the time the financing benefits can be fully realized.

We apreciate your support. It is through good industry/government relations that market development can be most effective. The results are what we all want. More jobs, a better balance of trade and a peaceful progressive world.

Thanks very much.

8/11

TESTIMONY OF THE WESTERN WOOD PRODUCTS ASSOCIATION BEFORE THE SUBCOMMITTEE ON REGULATION AND BUSINESS OPPORTUNITIES

August 15, 1988
Portland, Oregon

Congressman Wyden and members of the Committee, we appreciate this opportunity to testify in support of federal policy to enhance marketing efforts of American lumber producers shipping to the Pacific Rim and other offshore markets.

I am Malcolm Epley Jr., vice president of the Western Wood Products Association. Our organization represents lumber manufacturers from throughout the 12-state Western Woods Region of the United States. That would exclude Alaska and Hawaii. This industry annually produces about 60% of all softwood sawn lumber manufactured in the United States.

We will report today upon trends in Pacific Rim markets for lumber produced in the Western Woods Region of the United States, which we refer to as Western Lumber. This includes primarily framing type lumber and some of the heavier timbers and cants. We will also discuss opportunities for these sawn lumber products, specifically; we will cover the obstacles to fulfilling those opportunities; and we will make some observations regarding the roles the federal government plays---or could play--- in expanding trade into these markets.

Historically, the Pacific Rim has been a major market for products from sawmills of the Western U.S. In 1928, for instance, shipments to Asia, Australia and other Pacific Rim destinations totaled almost 1.25 billion board feet of lumber. This was a level never again approached until 1987. However, the mix of the markets 60 years ago was somewhat different than that today.

In those earlier years, China was a major market for Pacific Northwest sawmills, using hundreds of millions of board feet annually. In recent years, the People's Republic of China has accepted but a few million board feet per year in processed lumber products, though it is a major market for logs.

Japan has emerged in the past two decades as the major single export market for all U.S. lumber. By far the largest share---if not all---of sawn U.S. softwood lumber reported as exported to Japan and most other Pacific Rim markets are from the American West.

Through the 1960's, U.S. lumber shipments to Japan averaged slightly more than 200 million board feet annually. During the 1970's, that more than doubled. And so far during the present decade those shipments have averaged more than 660 million board feet annually. In 1987 Japan imported a total of slightly more than one billion board feet of U.S. softwood. This year, through the first five months, we are on a pace that is now expected to exceed any previous records available. This growth is in response to a combination of an improved U.S. dollar exchange rate and lengthy development of market relationships and product education that can now come to fruition among Japanese decisionmakers.

Australia has been another steady customer for Western U.S. lumber. Again, you have to look back to the halcyon days of the 1920's to find peak exports to the market described then as Australiasia. In those years that market was requiring between 250 and 300 million board feet of U.S. sawn lumber annually. That included not only Australia but New Zealand and the various Oceanic island markets as well.

In recent times, this same market----dominated by Australia---has used between 100 and 200 million board feet annually. In 1987, shipments totaled 194 million board feet, 87 percent of which went to Australia.

South Korea is often mentioned as a prospective customer for Western Lumber, but at least partly due to reasons to be discussed later, that as yet has not materialized. The 1987 shipment total of some 16 million board feet, though not a large number in itself, is nevertheless more than double the average yearly shipment volumes to Korea in the 1970's. The 1987 shipments hit the highest levels of the 1980's, as well.

That gives you a feel of present Western Lumber trends in relation to Pacific Rim markets. In summary, after more than half a century in the doldrums, there is significant expansive movement underway, at least in Japan. Elsewhere there is need for development and work, as will be described later. But it should be obvious that these markets are of vital interest to producers in the western United States, and how well they are sustained and expanded can have a strong impact upon the economic health of those states. This will be true especially as we move into periods of slackening domestic demand, as may be in the near term prospect.

Opportunities abound for western lumber products all around the Pacific Rim. But these will not come automatically. Nothing can be taken for granted.

The homebuilding market in Japan is now matching that of the United States both in size and intensity. Culturally, the Japanese people are wood-oriented. There is an overwhelming desire for home ownership, though limited and high-cost landspace will mean limited numbers of single-family homes. Research financed through the Foreign Agricultural Service, and conducted jointly by our Association and the American Plywood Association, shows there is a trend away from wood-based housing in Japan, with more than half now being built of non-wood materials. This reflects the growing trend toward multi-family housing, which provides high-density use of the scarce building space on the Japanese islands.

This opens two opportunities. One is to expand the use of Americ -type processed lumber in Japanese wood-based homes. Built into what is now known throughout that country as the 2x4 house, this is an innovation in Japan occurring in just the past 15 years. In 1974, only 168 houses were built using U.S.-style 2x4 techniques. Over subsequent years, enough confidence has been developed in this "platform" construction. The techniques had become common enough among Japanese builders that by 1987 the number of such houses constructed had risen to 40,105. Projections are that in 1988 some 50,000 such homes will be built.

This 2x4-style house is not the limit of U.S.-originating sawn wood used in Japanese housing, as many traditional houses are being built using U.S.-made lumber sawn to traditional Japanese sizes. Such traditional houses comprise by far the major share of all single-family, detached homes built in Japan each year.

We should point out that this platform housing rate has grown steadily since 1978. It was at about that time that effort by the Western Wood Products Association, and others seeing the market potential, resulted in the adoption by Japanese agencies of lumber grades closely related to standard U.S. lumber grades.

We should also point out that Canadian lumber producers are also 2x4 specialists, and their share of gains made in the Japan marketplace is significant.

The other prime opportunity in Japan is to penetrate the construction markets that design and build to resolve problems of land scarcity and high population. That would be apartment and commercial structures of three and four stories in height. WWPA joined with the American Plywood Association in the Summit House project in 1986 which was a direct and aggressive marketing approach to the higher-density construction styles. I should mention that this emerged from the Market Oriented Sector Specific talks...known as the MOSS talks. Not only could it not have been undertaken without U.S. government effort to pave the way, it probably would never have happened without the financial assistance of the Foreign Agricultural Service.

On this subject, it is important to understand how WWPA sees trade barriers. Of course there are tariffs, sometimes established at unnecessarily high levels simply to prevent foreign product penetration into domestic markets. There are also non-tariff barriers which can be created as a protectionist move by a country intending to deflect outside competition with its domestic capabilities.

In addition to these, there is another type of obstacle which might better be termed a "marketing barrier". Rather than those barriers contrived---with or without tariffs---to repel foreign competition or for internal political purposes, marketing barriers are the normal result of cultural preference, evolutionary practices or alternate technologies.

An example of one of these would be the Japanese building codes which have restricted wood use in three-story or higher structures. Those codes have evolved through a natural process. That they have not favored wood in the past is a direct reflection of the Japanese fear of fire, at least partially a throw-back to the fierce fires suffered by Japanese cities during World War II. Through a steady effort of developing strong relationships and mutual confidence, and through education, demonstration and technical information, we can report progress is being made on the three-story building front. That it has moved as positively as it has, we believe, is a credit to the Japanese officials involved, to the cooperative spirit and capabilities of the industry groups---primarily the American Plywood Association, the National Forest Products Association and WWPA---and to the hand-in-hand partnership of the federal government as represented by the FAS and the U.S. Trade Representative, among others.

As far as western lumber is concerned, Japan does have tariff restrictions U.S. lumber shippers do not consider reasonable, and which cause restraint in trade. While sawn lumber in most species and round logs in all U.S. species is accepted at Japanese ports free of duty, undue sawn lumber tariffs still persist on western pines and spruces. These have been decreased recently to 8% for finished lumber. Since the higher-valued select, or clear, grades are most frequently found in these pines, even a small tariff percentage can result in considerable penalty. These tariffs seem to do little service for the Japanese, but considerable disservice to American pine and spruce shippers. Besides the financial penalties involved, the duty processes ---whether for tariffed or non-tariffed items---creates costly delays at the ports of entry. We believe these tariffs should be eliminated, and hope that can be accomplished through General Agreements on Tariffs and Trade (GATT) negotiations. We would hope import assessment procedures can be simplified as well, to reduce time requirements for incoming product shipments.

Similarly, tariffs should be eliminated on laminated products. While Douglas Fir lumber itself carries no tariffs when imported into Japan as standard lumber, once fabricated and imported as laminated structural or appearance products---such as beams and posts---it is taxed at a duty rate of at least 15%.

Certain non-tariff trade barriers in Japan also deserve special attention. For instance, the Japanese government rejects U.S. tests, requiring products to be retested at high cost in Japan. The government also does not recognize U.S.-based grading capabilities which could eliminate regrading or certification expenses.

Round log shipments to Japan, even though a matter of Japanese policy, are not considered the result of a non-tariff barrier situation. Japan has its own traditional lumber manufacturing industry, most of it in the small-business category. It is being reduced by attrition, not by force. Over the years, therefore, it is expected that Japan will import fewer logs and more processed lumber.

WWPA has conducted market development programs in Japan formally since the early 1970's. We operate an office in Tokyo staffed by a Japanese national. Through this office, traditional trade promotion activities are conducted, including trade shows, tours (bringing prospective users to the U.S., bringing prospective sellers to Japan), seminars, presentations, intelligence gathering, and technical programs. A major effort is to maintain working relationships with the infrastructure of various Japanese ministries and bureaus affecting possible lumber usage in that market. A number of publications have been developed, printed in Japanese language and edited for Japanese lumber use applications.

Major financial support for all WWPA marketing activity in Japan is provided both by the members of the Association themselves, as well as by the Foreign Agricultural Service.

For the longer term, with one exception, the primary focus of western U.S. lumber market development on the Pacific Rim is expected to remain on Japan.

Australia is the other major immediate opportunity for western lumber market growth on the Pacific Rim, though it cannot be expected ever to achieve Japanese potentials both now and in the future. Still, it is a significant market at this time for certain specialty products of West Coast mills, especially in the Douglas Fir species (known in Australia as "Oregon Pine", or, simply, "Oregon").

Australia is a wood-oriented market. In fact, it has commenced a long-range program to establish its own wood-independent posture in world markets. Great plantations of Radiata Pine (Monterey Pine originating on the North Coast of California) are being cultivated and major portions are now maturing and are in production. This makes an excellent framing and appearance product for residential construction. Native Australian hardwoods are also used for residential framing.

In spite of the self-sufficiency effort, the Australian markets have retained a strong preference for Oregon Pine (Douglas Fir). So much so that they have developed techniques to incorporate Douglas Fir framing specially rough-surfaced (called "scantlings") so as to escape a 5% duty on imported finished lumber.

WWPA has been conducting market expansion programs in Australia for several years. It has been working cooperatively with wood marketing organizations there, and is a member of the Timber Development Association, leading market expansion trade group there.. Activities include advertising and special publications edited in specifically for Australian users.

China's primary wood interests lie in roundlogs, and in acquiring the technology to process them. Consequently, its barrier system is not sensitive to opportunities extant in the world's most populous nation. Thus, while logs and cants are accepted at a 3% duty, sawn lumber products typical of western U.S. mills are levied a 9% tariff. On both of these product categories, however, there is an additional but unpublished "duty" called a "product tax" which is collected at the time of entry. Such fabricated wood products as joinery (doors, windows, mouldings, etc.) are taxed as high as 50% or 60%. China has applied for membership in GATT.

Because of official Chinese policy resistance to processed wood products, and because China does not appear as yet ready to respond profitably to high levels of market development activity, western lumber manufacturers at this time consider that country a market whose time most likely will come sometime in the 1990's or even early in the next century. Still, WWPA does cooperate with other U.S. trade organizations in conducting demonstrations and educational activities in China. WWPA also has translated the Western Lumber Grading Rules into Chinese, and distributes that and other Chinese language information in its limited marketing programs there. Financial assistance through the Foreign Agricultural Service has made some of the WWPA efforts possible in this market.

The Republic of Korea is a member of GATT, and is given most favored nation status by the U.S. Nevertheless, it maintains a tariff barrier of 15% on finished lumber, and 5% on cants (partially squared-up logs). Like China, Korea is biased to roundlog importation over finished products. This market is seen by most western lumber shippers as antagonistic to imports, and as a consequence WWPA's marketing programming has not chosen as yet to establish a strong western lumber presence there.

Unlike domestic market development, experience has shown such activities in international markets are frequently enhanced through strategic industry and government cooperation. WWPA has found the Foreign Agricultural Service an intelligent, resourceful and helpful partner in international market development. While there are other initiatives identified by other panel members today, we would underscore the importance a viable FAS has played in helping bring western lumber's international markets to fruition.

Once again, your interest and support is very much appreciated. We hope this information has assisted in giving the Committee a clear picture of lumber marketing on the Pacific Rim, and opportunities for further expansion.

HEARING ON TRADE BARRIERS TO U.S. WOOD PRODUCTS SALES IN THE PACIFIC RIM BEFORE SUBCOMMITTEE ON REGULATION AND BUSINESS OPPORTUNITIES OF THE UNITED STATES HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS

By M. J. "Gus" Kuenne, President
Northwest Independent Forest Manufacturers
P. O. Box 11346
Tacoma, WA 98411

August 15, 1988

City Council Chambers
Portland, Oregon

CHAIRMAN WYDEN AND COMMITTEE MEMBERS: I am Gus Kuehne, President of Northwest Independent Forest Manufacturers. NIFM is an association of small and medium-sized sawmills, plywood plants, veneer manufacturers, shake mills, shingle mills, and loggers in Washington State. I estimate that approximately half of the forest products manufactured by our members is exported from the United States. Our association was formed in 1979 because of a concern for unfair trade practices which threaten our raw material supply. I don't believe that any other association in the wood products industry has spent a higher percentage of its efforts in working to reduce unfair trade practices as NIFM. While we have had some successes in reducing unfair trade practices in Canada and Japan, we have also suffered setbacks.

I suggest to the committee that mills in the Northwest are as efficient and productive as any in the world. We have the best softwood sawtimber in the world. We have a skilled labor force that is competitively compensated with other developed countries in the world. We have as modern and efficient manufacturing facilities as exist in the world. We believe that the Northwest Forest Industry is the low cost producer of finished wood products in the world.

However, over the past twenty-five years an increasingly large percentage of the timber that is harvested in the Northwest is exported as logs. In 1962 only 2% of the logs harvested in Oregon and Washington were exported as raw logs. This steadily increased until by the late 1970's, 20% of our harvest is exported as raw logs. Since the late 70's we have made no progress in processing a higher percentage of the timber that is harvested. In 1987, 20.2% of the timber harvested in Oregon and Washington was exported as raw logs, see attached table.

The disturbing thing about exporting logs rather than finished products is that we do not have a log surplus. The fact is, over a dozen timber supply studies done in the past decade show that timber supplies are declining. Private lands have been harvested at rates higher than can be sustained and public timber land base has been very significantly reduced by enormous withdrawals for wilderness, wildlife and other environmental considerations. The evidence is clear, timber harvest will decline from one-fourth to one-third over the next three decades.

In short, we do not have a surplus of timber that needs to be exported . . . we have a shortage which threatens our forest product manufacturing base.

Another consideration of the role that the industry will play in the economy of the Northwest is that with our improving productivity which keeps mills in the Northwest on the leading edge of manufacturing technology, we are producing more product with fewer employees. In Washington State lumber manufacturing, for example, we have had a 40% increase in productivity just since 1982. This means, of course, is a decline in forest industry employment.

With declining timber harvests and declining employment as a result of increases in productivity, there is no question that there will be a significant decline in the contribution forest products manufacturing makes to the economy of the Northwest. In fact, there is only one significant factor that can offset this decline. That is if a higher percentage of timber that we do harvest is processed into finished products. This is why we are so concerned with the high level of log exports in the Pacific Northwest.

Many people have said we are making progress. More lumber is being exported and that is true. But so are more logs being exported. While Japan is buying some more lumber, South Korea, China, and now even Turkey and India are buying increasing quantities of logs. These countries have very significant barriers against the importation of finished wood products from the Northwest.

A year ago I called for a 332 investigation by the U.S. International Trade Commission to determine why is it that Japan, Korea, China and other Asian nations can pay more for logs than mills in the Northwest. We need to know, for example, how it is that Japan, with labor costs as high as ours and with less efficient mills than those in the Northwest, can pay more for logs than mills in the Northwest. We know that this is economically impossible unless Japan is paying a higher price for lumber manufactured in Japan from our logs than they are willing to pay Northwestern U.S. mills.

We have some evidence of these price differences, see attached chart. But we need further investigation. We need the help of our government to compare wage rates, mill productivity, lumber selling prices, etc. We need to examine tariff and non-tariff barriers to determine if mills in the Northwest are the low cost producers of wood products. Our Government needs to determine if it is only through trade barriers which discriminate against our finished wood products that Asian countries are able to pay more for logs than mills in the Northwest, or are there changes that we must make.

The only real help we have received in this regard so far has been Senator Packwood. While we did not get the 332 study we requested, with Senator Packwood's help we have been assured the Commerce Department will study these issues. They are starting with a study of Japan, which is the largest importer of logs from the Northwest.

We are concerned, however, that this study receive the priority it deserves. We are also concerned that those people in the industry who profit by the exportation of logs and wish to control the study are not allowed to subvert the investigation. We need this study to clearly state why Japan can pay more for logs than mills in the Northwest.

There are two ways of looking at this situation with Japan. One is Japan is not paying mills in the Northwest as much as it is paying mills in Japan for lumber made from our logs. In other words, it isn't paying us enough for lumber. The other way of looking at it is that Japan is really paying more for logs than the logs are worth. Looking at it from that angle you can see why log exporters are not anxious that the truth come out.

We believe if there were free trade with Japan there wouldn't be any log exports. They would be buying finished products. So you can see why are parts of the U.S. industry, namely the large log exporters . . . Weyerhaeuser, ITT Rayonier and Burlington Northern, don't want to see these facts exposed.They understand this could lead to pressure on the Japanese to buy our finished products and not pay more for logs than the logs are worth.

In the case of South Korea and China, they buy virtually no lumber and all logs. South Korea has numerous tariff and non-tariff barriers. We believe that a 301 should be filed against South Korea. Attached is a copy of a recent letter I mailed to Peter Allgeier, Assistant U.S. Trade Representative, covering our concerns with South Korea.

As far as China is concerned, several trade delegations have been lead by congressmen from the Northwest to China in an attempt to get China to buy lumber and other finished wood products and they have been wholly unsuccessful. China is a non-market economy and simply chooses to buy raw material to keep the jobs in China. The price of lumber versus logs is not a factor.

Now we have Turkey and India getting into the act. They have so badly over cut their forest lands and so poorly tended them that the governments of these two countries have restricted timber harvesting and are planning to rely on logs from the Northwest U.S. to meet their wood needs. Even with the much lower labor costs in these countries, we still feel we can competitively sell products to these countries if there were no tariff and non-tariff barriers. However, tariff barriers are mammoth, 60% in the case of India. In the case of Turkey, a myriad of stamp fees, port charges, development fund charges, discharge fees, and value added taxes.

It is vital we have the cooperation of our government to initiate cases against these countries. This is not a normal trade restriction situation where we simply are impaired from selling our finished products. These trade barriers serve not only to restrict the export of our finished products but they undermine our industry by decreasing our timber supply.

Let me say that no other developed nation in the world allows this situation to occur. Canada, the largest exporter of lumber, pulp and paper products, has strict controls on the export of raw logs both from public and private lands. Indonesia, the largest exporter of plywood in the world, simply bans log exports. Scandinavian countries, which are the next largest exporters of wood products, all restrict the exports of raw logs. The reason logs go from the Pacific Northwest to Turkey and India, over half way around the world, is because there is virtually no other place they can get the quality of wood that grows here. Nobody else that has wood of even near comparable quality will allow it to be exported.

The reason that it is so important for these studies and investigations to occur is because most people in this country and even in the Northwest feel that logs are being exported because mills in the Northwest are inefficient and unable to compete in the world. That either our labor costs are too high or our mills are too old or our management is too backward or we are not trying hard enough, or whatever. They believe the fault is ours. Most people today would not support restricting log exports, for example, unless they felt that the countries importing the logs were unfairly discriminating against our finished products.

We desperately need to elevate the concern expressed even to get the proper priority for studies and investigations of these practices to be made. We also need to have an understanding in the forest industry itself that the long-term exportation of logs is not in the best interest of the economy of the Northwest . . . it is not even in the best interest of the forest products industry.

In summary, we deserve to know why is it that mills in the Northwest are unable to pay as much for logs as mills in Japan, China, South Korea, India and Turkey and we need our government to say it in straight-forward, clear terms, so that we can change these circumstances . . . so that we can mitigate the impacts of a declining timber supply . . . so that we can have a thriving Northwest forest products industry which manufactures finished wood products for domestic and international markets.

In conclusion, I am very appreciative of the interest that Chairman Wyden has shown in this area by holding this hearing. I certainly hope that it results in escalating pressure on the next administration to take whatever actions are necessary to remove unfair trade practices that discriminate against our finished products . . . even more importantly, erode our timber supply base by exporting our already declining raw material supply.

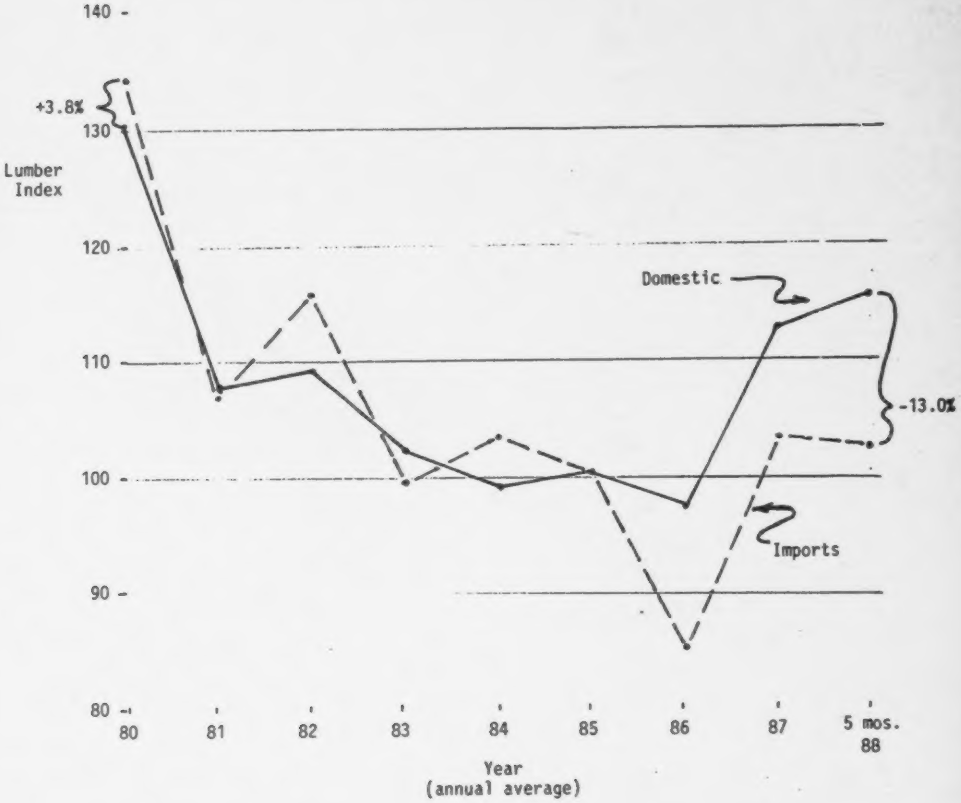
LOG EXPORTS AS A PERCENTAGE OF TOTAL TIMBER HARVESTED FROM OREGON AND WASHINGTON
(in million board feet, scribner scale)

Year	Total Harvest	Log Exports	Log Exports as % of Total Harvest
1962	13,551	311	2.2
1963	14,104	709	5.0
1964	15,659	835	5.3
1965	15,916	901	5.7
1966	14,996	1,109	7.4
1967	14,293	1,572	11.0
1968	16,714	1,974	11.8
1969	15,609	1,871	12.0
1970	15,063	2,216	14.7
1971	15,904	1,837	11.6
1972	16,634	2,637	15.9
1973	15,816	2,639	16.7
1974	16,170	2,189	13.5
1975	13,556	2,225	16.4
1976	15,121	2,737	18.1
1977	14,468	2,556	17.7
1978	14,748	2,847	19.3
1979	14,663	3,234	22.1
1980	12,359	2,632	21.3
1981	10,585	1,987	18.8
1982	10,837	2,568	23.7
1983	13,552	2,592	19.1
1984	13,352	2,722	20.4
1985	14,090	3,004	21.3
1986	15,106	2,780	18.4
1987	15,710(prelim)	3,168	20.2

Source: USDA, F.S. PNW Experiment Station, Production, Prices, Employment and Trade in Northwest Forest Industries.

8/11/88

JAPAN WHOLESALE LUMBER PRICE INDEX FOR DOMESTICALLY MANUFACTURED & IMPORTED LUMBER
(Index: 1985-100)



Source: The Bank of Japan

Obtained from: Wood-Products Stockpile Corp., Japan; Wood Supply & Demand Information Service, Table 8; April, 1988

Prepared by: Northwest Independent Forest Manufacturers 7/19/88

NIFM
NORTHWEST INDEPENDENT FOREST MANUFACTURERS
P.O. Box 11346 – Tacoma, Washington 98411 Suite 400 – 7011 So. 19th Street (206) 564-0452

August 2, 1988

Peter F. Allgeier
Assistant U.S. Trade Representative
Executive Office of the President
Washington, D.C. 20506

Dear Mr. Allgeier:

In June, when Phil Jones from Senator Evans office and I met with you to discuss South Korea, you requested that I follow up the meeting with a letter to you regarding my suggestions for talks you were planning.

Both Claude Burcky and Gordana Slijepcevic have called me notifying me of the delay in meeting dates and suggesting that I FAX a copy of my letter to Larry Blume of the Foreign Agriculture Service, which I am doing.

As discussed with you in June, I am highly skeptical of efforts to negotiate a reduction in tariff and non-tariff barriers with Korea. I doubt that Korea will lower tariff barriers on importation of U.S. finished wood products in any meaningful way unless it becomes convinced that not to do so will spur U.S. actions that will have a graver consequence on Korea's economy. As you are obviously a far more experienced negotiator than I, I am sure you are aware that unless both sides have something to gain from negotiations, it is virtually impossible for the negotiations to be successful. I doubt that Korea feels it has anything to gain by negotiating significant reductions in tariff and non-tariff barriers to U.S. finished wood products. I do believe, however, they probably feel they have something to gain by indicating a willingness to negotiate. . . time.

I believe we would be far more successful in negotiations after the U.S. Trade Representative accepts a 301 finished wood products case. The case would be based on tariff and non-tariff barriers which encouraged the importation of U.S. raw materials (logs) which are in short supply in the Pacific Northwest and discriminate against the importation of U.S. finished wood products (lumber and plywood).

I feel that if Korea believed failure to open its markets to finished U.S. wood products would result in limiting their access to U.S. logs, that in fact, there would be meaningful negotiations.

Since, however, you are apparently moving to have these negotiations anyway, I do have a few thoughts regarding current tariff and non-tariff barriers with Korea that I would like to share with you. Basically, wood trade barriers in Korea can be broken into two groups (1) barriers which restrict the importation of finished wood products, and (2) barriers that discriminate against the use of wood. On behalf of Northwest Independent Forest Manufacturers, let me assure you we are completely opposed to any discussions regarding elimination of barriers which discriminate against the use of wood until after all barriers to the free trade of finished products have been eliminated. To do otherwise would simply be to make an already critical timber supply shortage in the Pacific Northwest worse. We would, in effect, simply be exporting more logs from the Pacific Northwest to Korea, causing more wood products manufacturing facilities to close.

There are numerous timber supply studies in the Pacific Northwest that indicate this increasing problem of timber supply. Attached is simply the most recent study covering a significant timber supply area in Washington State. Timber supply studies for the entire Pacific Northwest show declines ranging from 25% to 40% in harvest levels (comparing the next several decades with current harvest levels).

As our trade with Korea is 97% to 98% logs and 2% to 3% finished lumber and plywood, I hope from this you can understand the detrimental effect of Korea increasing wood purchases. That would simply mean they would buy more logs, which by the way, set a record level in 1987, up 25% from the previous record in 1986, and nearly double the average of the 1970's.

We believe that 20% tariffs are the most significant restriction to finished products. But, there are also licensing and other non-tariff barriers as well. I would suggest that one constructive step that might be taken in the government to government meeting, would be to organize a industry to industry session that would involve U.S. lumber manufacturers who are currently involved in Asian lumber export trade with Korean lumber importers and representatives of wood users in Korea. Several Washington State manufacturers have gone to Korea in attempts to open markets for finished products. They were represented by Evergreen Partnership, a Washington State organization of forest product manufacturers and state agencies. They were very impressed by a Mr. Yong-Ju Park, president of Eagen Industrial Company, Ltd. C.P.O. Box 4587, Seoul, Korea, who's company is involved in importation of finished lumber products. We would suggest that he be involved on the Korean side in such a group. I am sure that if a group is formed to explore government actions needed to increase finished wood product trade with Korea, there would be several U.S.

manufacturers that NIFM, NFPA, and Evergreen Partnership could recommend.

In closing, let me emphasize, we have lost thousands of manufacturing jobs in the wood products industry in the Pacific Northwest already, not because we are an inefficient industry or one that makes products that are not desired, but because of unfair trade. These practices hurt this industry in two ways. They result in the exportation of our raw material and discrimination against our finished products. No other industrialized nation in the world allows this to occur and neither do a growing number of developing countries. We are tired of being the patsies. Don't tell us we need to continue doing this because this administration believes in "free trade"; when we know if there was "free trade" we would be exporting lumber and plywood, not our vital raw materials.

Sincerely,

Gus Kuehne

M. J. "Gus" Kuehne
President

MJK/cs
cc: Senator Daniel J. Evans
Congressman Don Bonker
Mr. Larry Blume - FAS
Steve Lovett - NFPA
NIFM Board of Directors

PACIFIC RIM TRADE ASSOCIATION

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U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS

Subcommittee on Regulation and Business Opportunities

10:00 a.m.
August 15, 1988

City Hall
Portland, OR

Mr. Chairman (and members of the committee), my name is Rolf Glerum. I am the executive director of the Pacific Rim Trade Association, an Oregon-based trade organization whose members consist of timber companies, tree farmers, labor unions, municipal ports, stevedoring companies, towboat companies and individuals who are directly or indirectly engaged in the export of forest products to foreign nations, principally in the Pacific Rim.

My testimony this morning will follow the guidelines set forth in your letter of July 12, requesting comments and suggestions on (quote) issues involving tariff and non-tariff barriers to U.S. wood product sales in the Pacific Rim (quote).

In order not to duplicate the testimony of others who are here today, I thought it would be most productive for me to limit my remarks to the specific products and species which account for the vast majority of finished material exported by PRTA members, namely Douglas fir and West Coast hemlock dimension lumber.

While none of our four major trading partners places a duty on softwood logs, two of them -- China and Korea -- charge tariffs of 9% and 10% respectively on imported softwood lumber. Fir and hemlock lumber into Japan and Taiwan is duty-free. What then, are the non-tariff barriers that make it more difficult for our members to sell their products in the Pacific Rim? In a series of very informal, but detailed, conversations with several PRTA members, I was hard-pressed to identify a single trade barrier -- tariff or non-tariff -- that really presented a serious problem. Those I talked to claimed that their commercial dealings with Pacific Rim trading partners were relatively trouble-free and uncomplicated, with the trend definitely heading for even more open access and quick, efficient transactions.

I reiterate the fact that I am speaking on behalf of PRTA, whose members include many organizations not directly involved in forest products production and marketing. Stevedoring companies, municipal ports, shippers and shipping agents -- these organizations have a different set of problems when it comes to non-tariff barriers, and they should be addressed at a different time.

I don't want to leave you with the impression that we think all is well with our Pacific Rim trading practices, and that we are complacent and satisfied that matters can't be improved. There are unreasonable duties in place on engineered wood products, such as glu-lam beams . . . Japan places a duty on plywood, veneer and some inland softwood species, and we're encouraged to see that that duty has been lessened in the last few years.

Nevertheless, our members are constantly searching for a more open market, with a reduction in restrictions on both sides of the Pacific, as by far the best way to enhance and expand foreign trade.

Your letter goes on to express interest in the success of U.S. trade negotiators during recent years in eliminating barriers to export lumber sales. In my limited experience as an observer to government-to-government negotiations with the Japanese in recent years, I think the U.S. side did an exemplary job of tough and reasonable negotiations on the industry's behalf.

I can't let this subject go by, however, without putting in a plug for the re-constitution of the industry-to-industry talks which have unfortunately dissolved. Although PRTA was not an active participant in those talks, our partner trade associations -- namely NFPA, APA and WWPA -- should get full credit for setting the agenda, if you will, for the subsequent talks at the governmental level.

U.S. lumber sales to the Pacific Rim -- especially the Japanese -- continue on an upward course. U.S. mills are cutting more metric lumber; Japanese builders are using more U.S. dimension in their home construction -- these two trends, both increasing, can only result in better and stronger trade ties across the Pacific, which, after all, is the ultimate objective of every person at this hearing today.

# # #

CRS REPORT FOR CONGRESS

U.S. WOOD EXPORTS TO THE PACIFIC RIM

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Environment and Natural Resources Policy Division

August 11, 1988

U.S. WOOD EXPORTS TO THE PACIFIC RIM

SUMMARY

Five Pacific Rim nations -- Japan, China, Korea, Taiwan, and Australia -- are important markets for U.S. wood products, accounting for nearly 60 percent of U.S. wood exports in 1987. These export markets are dominated by softwood logs, although exports to Taiwan are mostly hardwoods, while exports to Australia are predominately softwood lumber. Exports in the first quarter of 1988 are 45 percent above 1987's record level, so U.S. wood exports to the Pacific Rim are likely to set a new record in 1988. Pacific Rim markets seem likely to continue to grow, unless tariffs and nontariff barriers limit imports of U.S. wood products.

Tariffs on wood products range from 0 up to 30 percent or more on various products. In general, more processed products, such as plywood and particleboard, have higher tariffs than raw materials, such as logs and lumber. Most Pacific Rim nations have reduced wood product tariffs in the past two years, but high tariffs are still a barrier for many products.

As tariffs are reduced, nontariff barriers will become more serious limitations to U.S. wood exports. Nontariff barriers vary widely among countries, but typically include import licensing requirements, building and fire codes which restrict the structural use of wood, and shipping regulations for unloading and for internal distribution. For example, fire and building codes are considered serious barriers for exports to Japan, while the complicated import licensing system is a major barrier for exports to China, and possible downgrading of the strength rating for Douglas-fir lumber is the principle concern for exports to Australia. However, documentation of nontariff barriers is difficult, and U.S. efforts at identifying these problems have been inconsistent. Thus, negotiations to eliminate nontariff barriers are handicapped.

Many Federal agencies provide technical and/or financial assistance for exporting. The Office of the U.S. Trade Representative coordinates trade policy and conducts trade negotiations. The Foreign Agricultural Service and the International Trade Administration have numerous programs and services, many for a fee, with information on export opportunities. These agencies also have counselors, attaches, and/or trade officers in many foreign countries to assist export marketing. In addition, export loans, loan guarantees, and insurance are available from several Federal agencies, including the Foreign Agricultural Service, the U.S. Export-Import Bank, the Small Business Administration, and the Overseas Private Investment Corporation. However, this broad array of services and agencies makes a bewildering conglomeration of Federal activities, and can be a daunting challenge to prospective exporters.

ABSTRACT

In 1987, U.S. producers exported nearly $4 billion of solid wood products. Sixty percent of this total was sent to five Pacific Rim nations: Japan, China, Korea, Taiwan, and Australia. Although these exports set a new record, and 1988 exports are at even higher levels, many believe that U.S. wood exports could be much greater if tariffs and nontariff barriers were reduced. This report presents historic levels of U.S. wood exports to the Pacific Rim, the tariff and nontariff barriers, and Federal agencies and programs which support or assist wood exports.

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U.S. WOOD EXPORTS TO THE PACIFIC RIM

In 1987, U.S. producers exported nearly $4 billion of solid wood products. Sixty percent of this total, nearly $2.4 billion, was sent to five Pacific Rim nations -- Japan, China, Korea, Taiwan, and Australia -- with Japan being the largest export market for U.S. wood products. Although these exports set a new record (in current dollars), many believe that U.S. wood exports would be much greater if tariffs and nontariff barriers were reduced. This report presents data on U.S. wood exports to the Pacific Rim, tariff and nontariff barriers, and Federal agencies and programs which support or assist wood exports.

DATA ON U.S. WOOD EXPORTS TO THE PACIFIC RIM

The Pacific Rim has long been a significant market for U.S. wood products. Japan has been the largest export market since the 1960s; Japan, China, Korea, Taiwan, and Australia have received more than half of U.S. wood exports for a decade. Table 1 shows the value of U.S. wood exports to these nations from 1979 through 1987. The major export has been softwood logs, but the product mix varies by destination.[1] It is difficult to project future exports, but in the first quarter of 1988, exports are exceeding the 1987 record levels, and many believe that wood exports to the Pacific Rim will continue to grow.

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[1] Log exports are somewhat controversial. Exports from Federal lands are generally prohibited, but a State law prohibiting log exports from State lands was ruled unconstitutional by the U.S. Supreme Court in 1984.

TABLE 1. Value of U.S. Wood Exports to Pacific Rim Countries (millions of dollars)

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Japan	$1,945	$1,918	$1,282	$1,277	$1,080	$1,021	$1,069	$1,287	$1,812
China	$0	$43	$99	$217	$236	$288	$329	$183	$168
Korea	$92	$85	$59	$99	$114	$106	$118	$137	$190
Taiwan	$8	$8	$18	$22	$42	$65	$73	$123	$131
Australia	$50	$42	$56	$44	$55	$69	$64	$47	$66
Subtotal	$2,095	$2,095	$1,515	$1,658	$1,527	$1,549	$1,652	$1,777	$2,367
% of Total	60%	57%	50%	58%	54%	58%	62%	59%	60%
US Exports	$3,497	$3,670	$3,017	$2,835	$2,823	$2,689	$2,664	$3,022	$3,961
Value of U.S. Wood Exports in Constant Dollars (millions of 1982 dollars)									
Japan	$2,475	$2,238	$1,364	$1,277	$1,039	$948	$961	$1,128	$1,542
China	$0	$50	$106	$217	$227	$267	$296	$160	$143
Korea	$117	$99	$63	$99	$110	$99	$106	$120	$161
Taiwan	$11	$9	$19	$22	$41	$60	$65	$107	$112
Australia	$63	$49	$59	$44	$53	$64	$58	$42	$56
Subtotal	$2,665	$2,445	$1,611	$1,658	$1,470	$1,438	$1,486	$1,557	$2,014
% of Total	60%	57%	50%	58%	54%	58%	62%	59%	60%
US Exports	$4,449	$4,282	$3,210	$2,835	$2,717	$2,496	$2,396	$2,649	$3,371
Percent of U.S. Exports Destined For Pacific Rim Nations									
Japan	55.6%	52.3%	42.5%	45.0%	38.2%	38.0%	40.1%	42.6%	45.7%
China	0.0%	1.2%	3.3%	7.7%	8.3%	10.7%	12.3%	6.1%	4.2%
Korea	2.6%	2.3%	2.0%	3.5%	4.1%	3.9%	4.4%	4.5%	4.8%
Taiwan	0.2%	0.2%	0.6%	0.8%	1.5%	2.4%	2.7%	4.1%	3.3%
Australia	1.4%	1.1%	1.8%	1.5%	2.0%	2.6%	2.4%	1.6%	1.7%

Sources: U.S. Dept. of Agriculture, Foreign Agricultural Service. Wood Products: International Trade and Foreign Markets. Foreign Agriculture Circular WP 3-84 (Nov. 1984). Washington, U.S. Govt. Print. Off., 1984. p. 18. __________. Circular Series WP 2-88 (June 1988). p. 24.

JAPAN

U.S. wood exports to Japan were $1.8 billion in 1987, 46 percent of total wood exports. For more than a decade, exports to Japan have exceeded $1 billion and Japan has received more than a third of all U.S. wood exports. Exports to Japan peaked in 1979, at $1.9 billion, falling off to just $1.0

billion in 1984. Exports have since recovered, and were at a record-setting pace in the first quarter of 1988.

The mix of products exported to Japan has remained fairly stable over the past decade. Softwood logs account for about two-thirds of the exports, with softwood lumber and wood chips each accounting for about 15 percent. Table 2 shows the product mix for major categories of products from 1980 through 1985.[2]

TABLE 2. U.S. Wood Exports to Japan (millions of dollars)

	1980	1981	1982	1983	1984	1985
Softwood Logs	$1,290.9	$822.9	$829.2	$688.6	$631.4	$674.1
Softwood Lumber	$221.4	$176.0	$194.7	$183.1	$162.3	$170.7
Softwood Plywood	$2.2	$1.8	$2.2	$1.8	$2.0	$1.8
Hardwood Logs	$9.6	$8.8	$8.5	$6.9	$9.0	$8.2
Hardwood Lumber	$8.9	$11.8	$11.0	$19.2	$35.5	$29.4
Hardwood Veneer	$0.4	$0.3	$0.7	$0.7	$0.4	$0.6
Wood Chips	$358.6	$235.2	$206.8	$156.9	$156.6	$160.6
Other Products	$25.9	$25.7	$23.7	$22.4	$23.9	$23.4
Total Exports	$1,917.9	$1,282.4	$1,276.6	$1,079.5	$1,021.1	$1,068.7
Selected Products as a Percent of Total Exports to Japan						
Softwood Logs	67.31%	64.17%	64.95%	63.78%	61.84%	63.08%
Softwood Lumber	11.54%	13.72%	15.25%	16.96%	15.89%	15.98%
Hardwood Lumber	0.46%	0.92%	0.86%	1.78%	3.48%	2.75%
Wood Chips	18.70%	18.34%	16.20%	14.54%	15.34%	15.03%

Source: U.S. Dept. of Agriculture, Foreign Agricultural Service. Wood Products: Market Analysis for 20 Selected Countries. FAS Staff Report No. 7. Washington, Oct. 1986. p. 26. (Hereafter referred to as FAS Wood Products Market Analysis.)

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[2] More recent data on the value of exports by product to specific countries are not readily available.

PEOPLE'S REPUBLIC OF CHINA (PRC)

Since 1982, the People's Republic of China (hereafter referred to as PRC) has become the third largest export market for U.S. wood products, after Japan and Canada. The PRC began importing U.S. wood in 1980, and imports rose rapidly. Exports to the PRC declined in 1986 and 1987, allowing Korea to move ahead of the PRC as a market in 1987. However, exports are back up to high levels again in the first quarter of 1988. Most U.S. wood exports to the PRC have been softwood logs, as shown in table 3. Softwood lumber and other products (e.g. railroad ties in 1984) are occasionally important, but logs account for more than 95 percent of the exports.

TABLE 3. U.S. Wood Exports to China (millions of dollars)

	1980	1981	1982	1983	1984	1985
Softwood Logs	$41.4	$89.2	$211.9	$227.8	$271.8	$323.4
Softwood Lumber	$0.0	$9.5	$5.0	$6.5	$8.9	$4.4
Softwood Plywood	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Hardwood Logs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Hardwood Lumber	$0.0	$0.5	$0.0	$0.0	$0.0	$0.1
Hardwood Veneer	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Other Products	$1.4	$0.1	$0.1	$1.4	$7.0	$0.9
Total Exports	$42.9	$99.2	$217.0	$235.7	$287.8	$328.9
	Selected Products as a Percent of Total Exports					
Softwood Logs	96.6%	89.9%	97.6%	96.6%	94.5%	98.3%
Softwood Lumber	0.0%	9.5%	2.3%	2.7%	3.1%	1.3%

Source: FAS Wood Products Market Analysis, p. 16.

REPUBLIC OF KOREA

The Republic of Korea (South Korea, hereafter referred to as Korea since there are no U.S. wood exports to North Korea) has been a growing market for U.S. wood products. In 1987, exports to Korea were $190 million, nearly 5 percent of all U.S. wood exports. This made Korea the third largest export market in 1987, although exports to Korea have usually been less than those to PRC, as is the case for the first quarter of 1988. As with PRC, softwood logs have dominated the export trade, as shown in table 4. However, much of the growth between 1980 and 1985 was in particleboard and other panel products. As a result, softwood logs, which were nearly 90 percent of exports in 1980, were only 80 percent of exports in 1985.

TABLE 4. U.S. Wood Exports to Korea (millions of dollars)

	1980	1981	1982	1983	1984	1985
Softwood Logs	$75.4	$48.0	$84.9	$94.9	$84.6	$94.5
Softwood Lumber	$3.0	$4.2	$3.8	$5.7	$5.1	$2.5
Softwood Plywood	$0.0	$0.1	$0.1	$0.1	$0.0	$0.1
Hardwood Logs	$3.2	$1.5	$1.8	$1.9	$3.1	$3.6
Hardwood Lumber	$0.6	$1.5	$2.6	$1.8	$2.2	$2.6
Hardwood Veneer	$0.3	$0.8	$1.7	$3.2	$2.3	$2.3
Other Products	$1.9	$3.3	$3.9	$6.7	$8.8	$12.2
Total Exports	$84.5	$59.4	$98.8	$114.4	$106.1	$117.8
Selected Products as a Percent of Total Exports						
Softwood Logs	89.2%	80.8%	85.9%	83.0%	79.7%	80.2%
Softwood Lumber	3.6%	7.1%	3.9%	5.0%	4.8%	2.1%
Hardwood Logs	3.8%	2.5%	1.8%	1.7%	2.9%	3.1%
Hardwood Lumber	0.7%	2.5%	2.6%	1.6%	2.0%	2.2%
Hardwood Veneer	0.4%	1.4%	1.7%	2.8%	2.2%	1.9%

Source: FAS Wood Products Market Analysis, p. 37.

REPUBLIC OF CHINA (TAIWAN)

The Republic of China (hereafter referred to as Taiwan) has been one of the fastest growing markets for U.S. wood products. Taiwan was our eighth largest market in 1987, with imports of $131 million. The product mix for Taiwan, being dominated by hardwood species, differs from that for most other Pacific Rim nations. As shown in table 5, hardwood lumber accounted for more than half of U.S. exports to Taiwan from 1983 through 1985, with hardwood logs and hardwood veneer accounting for 18 and 9 percent, respectively. In total, hardwoods account for more than three quarters of U.S. wood exports to Taiwan.

TABLE 5. U.S. Wood Exports to Taiwan (millions of dollars)

	1980	1981	1982	1983	1984	1985
Softwood Logs	$0.55	$0.94	$2.13	$0.71	$4.19	$0.43
Softwood Lumber	$1.46	$0.96	$0.85	$0.66	$0.86	$0.62
Softwood Plywood	$0.09	$0.13	$0.01	$0.24	$0.14	$0.01
Hardwood Logs	$1.71	$2.93	$3.94	$7.17	$9.01	$15.51
Hardwood Lumber	$1.96	$7.01	$7.55	$24.41	$33.86	$37.46
Hardwood Veneer	$0.75	$1.50	$2.44	$3.87	$5.53	$6.01
Other Products	$1.48	$4.63	$5.31	$5.20	$11.43	$12.58
Total Exports	$8.00	$18.10	$22.22	$42.26	$65.02	$72.61
Selected Products as a Percent of Total Exports						
Softwood Logs	6.85%	5.18%	9.59%	1.69%	6.45%	0.59%
Softwood Lumber	18.29%	5.31%	3.82%	1.57%	1.33%	0.85%
Hardwood Logs	21.43%	16.19%	17.71%	16.96%	13.86%	21.36%
Hardwood Lumber	24.44%	38.76%	33.98%	57.76%	52.07%	51.59%
Hardwood Veneer	9.43%	8.29%	10.98%	9.15%	8.50%	8.27%
Other Products	18.51%	25.58%	23.91%	12.31%	17.57%	17.32%

Source: FAS Wood Products Market Analysis, p. 45.

AUSTRALIA

Australia has been a stable market for U.S. wood products for the past decade. However, Australia has become less important as other markets -- such as Taiwan, Mexico, and Spain -- have grown, and Australia is now our twelfth largest export market. Exports have averaged about $55 million since 1980, with 85 to 90 percent being softwood lumber, as shown in table 6.

TABLE 6. U.S. Wood Exports to Australia (millions of dollars)

	1980	1981	1982	1983	1984	1985
Softwood Logs	$0.05	$0.03	$0.06	$0.03	$0.05	$0.00
Softwood Lumber	$36.99	$47.73	$38.22	$50.52	$62.05	$55.36
Softwood Plywood	$0.07	$0.03	$0.03	$0.04	$0.06	$0.01
Hardwood Logs	$0.05	$0.07	$0.00	$0.03	$0.01	$0.02
Hardwood Lumber	$0.29	$0.98	$0.55	$0.79	$1.52	$1.50
Hardwood Veneer	$0.44	$0.62	$0.48	$0.38	$0.64	$0.32
Other Products	$3.89	$6.03	$4.49	$3.58	$4.60	$6.76
Total Exports	$41.78	$55.49	$43.82	$55.36	$68.94	$63.97
Selected Products as a Percent of Total Exports						
Softwood Lumber	88.54%	86.01%	87.23%	91.25%	90.02%	86.55%
Hardwood Lumber	0.69%	1.76%	1.25%	1.43%	2.20%	2.34%
Hardwood Veneer	1.05%	1.11%	1.08%	0.68%	0.92%	0.49%

Source: FAS Wood Products Market Analysis, p. 8.

PROSPECTS FOR EXPORTS TO THE PACIFIC RIM

U.S. wood exports in the first quarter of 1988 are on a pace to exceed 1987's record. Total wood exports in the first quarter of 1988 were 35 percent greater than in the first quarter of 1987; if that pace continues, total wood exports would easily surpass $5 billion. Wood exports to the Pacific Rim are up even more, with first quarter exports 45 percent ahead of the 1987 level. If this pace is maintained, exports to the Pacific Rim could reach $3.4 billion for 1988. This increase is not evenly distributed among the 5 Pacific Rim nations which import U.S. wood. Exports to Australia are down nearly 10 percent, but Japanese imports are up 25 percent, Taiwanese imports are up 40 percent, Korean imports have more than doubled, and PRC imports have more than tripled. These increases might not be sustained for the entire year, but it seems likely that 1988 wood exports to the Pacific Rim will surpass the $2.4 billion record of 1987.

Prospects for U.S. wood exports to the Pacific Rim beyond 1988 are also bright. Economic growth in Japan, PRC, Korea, and Taiwan is expected to continue at fairly high levels, with additional efforts to satisfy the housing needs of their people. New restrictions and stronger enforcement of existing restrictions on log exports from Southeast Asia (especially Indonesia, Malaysia, and the Philippines) could contribute to U.S. exports. However, while export markets are growing, tariffs and nontariff barriers may limit possible expansion of exports. Reducing or eliminating these trade restraints could allow greater increases in U.S. wood exports.

BARRIERS TO U.S. WOOD EXPORTS TO THE PACIFIC RIM

Two basic types of barriers may limit U.S. wood exports to less than might occur if all markets were completely free and open. Trade barriers are policies or practices which either restrict import quantities directly or increase the cost of importing. This increased cost can either be a direct cost -- tariffs and other charges -- or an indirect cost, through required additional efforts, additional time due to delays, required inefficient practices (such as shipping regulations), and the like. The Annual Report on Foreign Trade Barriers identifies 12 categories of barriers to trade, including tariffs and other import charges.[3] Not all of these barriers are used for wood products; this report focuses only on those used to restrict wood imports in the Pacific Rim, and separates tariffs from other import charges and nontariff barriers.

TARIFFS

Tariffs are taxes on imports, usually calculated as a percent of the value of the imports. Historically, tariffs have been used both to generate government revenues and to protect domestic industries. High tariffs, particularly on goods which are not produced locally, have traditionally been a major source of income for many developing countries. For developed countries, tariffs are typically a less important source of revenues, and thus are more likely to be protecting the domestic industry from foreign competition.

The General Agreement on Tariffs and Trade (GATT) was reached in 1947 to establish a forum for negotiating general reductions in trade barriers and for settling trade disputes. The most recent multilateral trade negotiations under GATT, aimed at reducing tariffs and nontariff barriers, began in Uruguay in 1986. In addition, many nations are engaged in ongoing bilateral negotiations to reduce tariffs and nontariff barriers.

Tariffs on wood products usually focus on processed products, such as lumber and veneer, plywood, and particleboard and other panel products, with higher tariffs for products with more advanced processing. Table 7 shows the current tariffs on selected products for 5 Pacific Rim nations. U.S. tariffs for these products are shown for comparison. The 20-percent tariff on softwood plywood was established to protect the domestic industry from Canadian competition, but the recent U.S.-Canada Free Trade Agreement may eliminate this protection. As is evident, U.S. tariffs on wood imports are generally lower than Pacific Rim tariffs.

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[3] Office of the U.S. Trade Representative, U.S. Dept. of Agriculture, and U.S. Dept. of Commerce. 1987 National Trade Estimate Report on Foreign Trade Barriers. Washington, U.S. Govt. Print. Off., 1987. p. 339-351.

Many of the Pacific Rim tariffs on wood products have been substantially lowered in the past year or two, as shown in table 7. These reductions, generally the result of bilateral negotiations, will increase the competitiveness of U.S. wood products, but some of the tariffs -- especially on plywood and particleboard -- are still quite restrictive. In addition, nontariff barriers may limit expansion of U.S. wood exports.

TABLE 7. U.S. and Pacific Rim Tariffs on Selected Products

	Date	Logs & Timbers	Lumber	Veneer	Softwood Plywood	Particleboard
U.S.	1987	free	free	free	20%	4%
Japan	1988	free	0-8%	5%	10-15%	8%
	1986	free	0-10%	15%	15-20%	13%
China	1988	free	10%	15-30%	12%	30%
	1986	8%	14%	40%	17-45%	40%
Korea	1988	5%	15%	15%	20%	20%
	1985	5-15%	20%	20%	30%	30%
Taiwan	1988	free	free	free	7.5-10%	3.75%
	1986	free	1.5%	2.5-25%	15%	10%
Australia	1987	free	5%	5%	25%	20%
	1986	free	5%	5%	28%	22%

Sources: FAS Wood Products Market Analysis, p. 5-6, 13-14, 22-24, 32-35, and 42-43.

National Forest Products Association. Data Bank on Tariffs and Nontariff Barriers. Draft report. Washington, 1988. Various pages.

NONTARIFF BARRIERS

Nontariff barriers are the various government policies (other than tariffs) and business practices restrict trade between countries. Some of these barriers are intentional; for example, import bans or quotas may protect the domestic industry, minimize dependence on foreign suppliers, or limit the use of foreign exchange for "non-essential" goods or services. Other policies and practices may have other purposes but nonetheless restrain trade; for example, local construction practices may have been developed because of available materials, while an import ban may be intended to protect native plants or animals from foreign pests. In practice, intentional and unintentional barriers are not separable, as some policies can have multiple objectives. For example, a national housing code may simultaneously attempt to protect human life while limiting dependence on imported construction materials.

One frequently-encountered barrier to exports, particularly for wood products, is differences in the sizes and measures used. In the United States and Canada, construction lumber is nominally 2 inches thick, 4 to 12 inches wide (in 2-inch increments), and 8 to 16 feet long (in 2-foot increments), with volume measured in board feet (or in cubic feet in Canada). Plywood and other panels are typically 4 feet wide, 8 feet long, with thickness measured in multiples of 1/8 inch; volume is usually measured in square feet. However, most of the rest of the world uses metric measurements -- centimeters, meters, etc. -- for wood products. While North American products can be measured metrically, they often do not match building code specifications or standard building techniques. Therefore, North American producers may have to adjust the sizes of their products if they wish to export.

Types of Nontariff Barriers

Nontariff barriers are all trade barriers other than tariffs, and are policies or practices which either restrict import quantities directly or increase the cost of importing. The Annual Report on Foreign Trade Barriers identifies 12 categories of barriers to trade, including tariffs and other import charges.[4] Other import charges, which are nontariff barriers, include taxes and fees assessed on importing, such as local sales taxes or harbor administration fees.

Quantitative restrictions limit the volume of trade in specified items; at the extreme, imports of a given item may be banned entirely. Quantitative restrictions have very predictable results, but generally violate GATT and so are no longer widely used for forest products. Import licensing -- requiring a government license to import a good -- is common, and can be a significant barrier if licenses are difficult to obtain. Many governments have "buy domestic" requirements for government procurement; when governments are major customers (such as in telecommunications equipment), this can severely restrict trade. Some governments also provide various export subsidies, including rebates of tariffs if the import is used in generating exports (such as wood imported to make furniture, which is then exported). Services and investment barriers often restrict shipping, insurance, and banking and currency transactions; these limitations may impose inefficiencies and other hidden problems for exporters.

For forest products, standards, tests, labels, and certifications may be the most important nontariff barriers. These are technical specifications for imports, often imposed to protect human life, health, and property or to protect native species from foreign pests or diseases. Restrictive business practices and government measures to protect public health and national security are typically not considered trade barriers, but sometimes the specifications are discriminatory or unnecessarily restrictive. The difficulty lies in distinguishing legitimate protection from disguised trade barriers. This ambiguity has led to increasing use of standards, product tests and labels, and required certifications for imports.

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[4] 1987 National Report on Foreign Trade Barriers, p. 339-351.

Pacific Rim Nontariff Barriers for Wood Products

It is difficult to identify many nontariff barriers. While tariff schedules are published, nontariff barriers may be administered by a plethora of government agencies. Thus, much of the existing information is fragmentary. The National Forest Products Association has compiled a data base on nontariff barriers for wood products from a variety of government and industry sources.[5] The data base is an aggregation of reported barriers, and thus is more illustrative than comprehensive. Some barriers are unconfirmed, but many have been identified by a number of sources. Although restrictive business practices and government measures to protect public health and national security are typically not considered trade barriers, this report includes them as important barriers even though they may not be intended to restrict trade.

Japan. The most commonly identified Japanese nontariff barrier to wood imports are fire and building codes which are much more restrictive than those used in the United States. These standards, and the traditional post-and-lintel construction methods, restrict the use of wood in Japanese construction.

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[5] National Forest Products Association. Data Bank on Tariff and Nontariff Barriers. Draft report. Washington, 1988. 32 p.

The Japanese also have systems of agricultural and industrial standards (JAS and JIS, respectively), which are not mandatory but which influence purchasing patterns. In addition, these standards and the "fair competition codes" assuring that Japanese products can compete with imports pose problems for introducing new products. Finally, several shipping requirements are substantial barriers, including limits on which ports may be used for logs, port closures on Sundays, restrictions on internal transportation of products, and a shipping cartel which sets westbound ocean freight prices.

PRC. The most significant barrier to exporting to the PRC is the complex import licensing system. This system is "nontransparent" -- that is, information about the system, how it works, and how to get a license is not generally available. Licenses are administered by the Ministry of Foreign Economic Relations and Trade, in part, to control the use of foreign exchange. Foreign exchange and currency transactions are strictly regulated, imposing another barrier on imports. An unpublished products tax -- 3 to 10 percent for wood imports -- has been reported. The government also restricts structural and certain other uses of wood products. Finally, internal transportation by foreign shippers is prohibited.

Korea. Korea has many forms of nontariff barriers. One is a ban on pine and larch imports, as protection against introducing the pine nematode (a pest that damages certain conifer species). Import licenses are required for most products. The Ministry of Construction controls the national building code, on which foreigners are not allowed to comment. The code generally discourages the use of wood, and prohibits structural wood in public housing (about a third of all housing in Korea). Korea rebates tariffs if the import is a component of exports. There are several shipping restrictions, including a prohibition on foreign-owned port facilities, shipments enter only through specified ports, and only domestic firms and the few licensed traders may distribute products internally. 'Foreign exchange is strictly controlled, and most imports are subject to the 10 percent value-added tax.

Taiwan. Taiwan generally has fewer, but not necessarily less onerous, nontariff barriers for wood products. Import licenses are required, and there are restrictions on freight handling by foreigners in the ports and on internal shipping. There is also a 4 percent harbor tax.

Australia. Australia has several barriers, although most are not considered severe limitations. The primary concern is a proposal to downgrade the strength rating of Douglas-fir lumber, making it a less desirable species. There are strict animal and plant regulations to protect native species. A notice of intent to import is required, and there are limits on internal shipping. Finally, the government discriminates against foreign suppliers for government purchases, and uses a price differential to favor domestic goods.

U.S. AGENCIES AND PROGRAMS SUPPORTING WOOD EXPORTS

Three Federal agencies dominate U.S. efforts to assist and support wood product exports: the Office of the U.S. Trade Representative, the Foreign Agricultural Service, and the International Trade Administration. The State Department is also involved, particularly through the embassies in foreign countries and the Bureau of Economic and Business Affairs. In addition, several other Federal agencies have financial aid programs which may be available to assist wood product exporters.

OFFICE OF THE U.S. TRADE REPRESENTATIVE

The Office of the U.S. Trade Representative (USTR), in the Executive Office of the President, is responsible for developing and coordinating U.S. trade policy and for directing all formal U.S. trade negotiations. Thus, USTR represents the United States in GATT negotiations, in the MOSS talks with Japan, in developing the Free Trade Agreement with Canada, and in other trade negotiations. However, other groups also consult with foreign governments in attempts to reduce barriers; for example, the U.S. Department of Commerce participates with the PRC in the Joint Commission on Commerce and Trade, while the U.S. Department of Treasury participates with the PRC in the Joint Economic Committee.

Most of USTR's efforts are aimed at foreign government officials; the agency rarely has direct contact with exporters. Rather, domestic assistance is conducted through other agencies, notably the Foreign Agricultural Service and the International Trade Administration.

FOREIGN AGRICULTURAL SERVICE

The Foreign Agricultural Service (FAS) is part of the U.S. Department of Agriculture. FAS prepares quarterly circulars on the world supply of and demand for wood products (and other agricultural commodities), annual market reports for 30 countries (including all 5 of the Pacific Rim countries that are the focus of this report), and other publications, such as A Guide to Exporting Solid Wood Products.[6] FAS maintains agricultural counselors, attaches, and trade officers in 70 foreign posts to assist in market development and trade opportunities for wood products and other agricultural commodities. The Agricultural Information and Marketing Services (AIMS) is a telecommunications network which can link these officers with prospective exporters, and is one of the ways which FAS distributes information about trade leads. Many of these services are not free, with subscriptions or other fees to cover the agency's costs.

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[6] U.S. Dept. of Agriculture, Foreign Agricultural Service. A Guide to Exporting Solid Wood Products. Agriculture Handbook No. 662. Washington, Sept. 1986. 108 p.

FAS also has a cooperator program. This program provides cost-sharing financial assistance to various non-profit associations, including the National Forest Products Association and other wood product trade associations, to conduct authorized overseas promotional activities. These activities include advertising, brochures and publications, trade missions, fairs, and seminars, and in Japan, the "Summit House 86" demonstration house to illustrate U.S. construction techniques.

Finally, FAS administers one of the major financial assistance programs. The Commodity Credit Corporation (CCC) Export Credit Guarantee Program (known as GSM-102) guarantees payments on exports, for a fee and with specific requirements for the foreign purchaser. The GSM-102 Program has been used for some wood products, but extending the program to plywood and other more processed products has been controversial. The Reagan Administration has opposed using the GSM-102 Program for such manufactured products, while the wood industry and many in Congress have supported its use. The Omnibus Trade and Competitiveness Act of 1987 (H.R. 3), which was vetoed by the President on May 24, 1988, contained a provision defining plywood and other more processed wood products as available for the program. A similar provision is contained in the H.R. 4848 and S. 2558, the successors to H.R. 3.

INTERNATIONAL TRADE ADMINISTRATION

The International Trade Administration (ITA) is part of the U.S. Department of Commerce.[7] ITA has a variety of services and programs, some of which have fees, to assist firms in developing export markets. Many of these programs are carried out through the 47 offices of the U.S. Commercial Service (scattered throughout the United States) and the 120 offices of the Foreign Commercial Service (in 67 foreign countries). In addition, the Office of Forest Products and Domestic Construction provides specialized information and assistance on domestic and international wood products markets.

FINANCIAL ASSISTANCE FOR EXPORTING

Several Federal programs directly or indirectly assist export financing. In addition to the GSM-102 Export Credit Guarantee Program, described above, several Federal agencies provide loans, loan guarantees, and/or insurance for exports. The Export-Import Bank of the United States (Eximbank) has credit and credit guarantee programs available to a variety of exporters, although it is to supplement and encourage, rather than compete with, private lending. The Foreign Credit Insurance Association was formed by the Eximbank and the insurance industry to provide credit protection for U.S. exporters. The Small Business Administration has a special Export Revolving Line of Credit Program, in addition to its normal lending program, for eligible small businesses or export trading companies.

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[7] This agency is often confused with the International Trade Commission (ITC), which is an independent agency. It investigates international trade policies and their effects on domestic industries, and provides studies and recommendations on trade and tariffs.

The U.S. International Development Cooperation Agency has three programs which support exporting. The Trade and Development Program is intended to promote economic development in and the export of U.S. goods to Third World countries and to support government-to-government technical assistance and U.S. private firm contracting with foreign governments. The Overseas Private Investment Corporation assists U.S. private investors in finding investment opportunities and then with loans, loan guarantees, and insurance. The Agency for International Development (AID) provides direct assistance to foreign countries for economic development and other activities; this assistance can lead to the development of new export markets for U.S. goods.

Finally, the World Bank and other multilateral development banks -- with contributions from the United States and other developed nations -- provide loans to developing nations. These programs can sometimes provide the capital needed to purchase U.S. goods, and thus may indirectly support U.S. exports.

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